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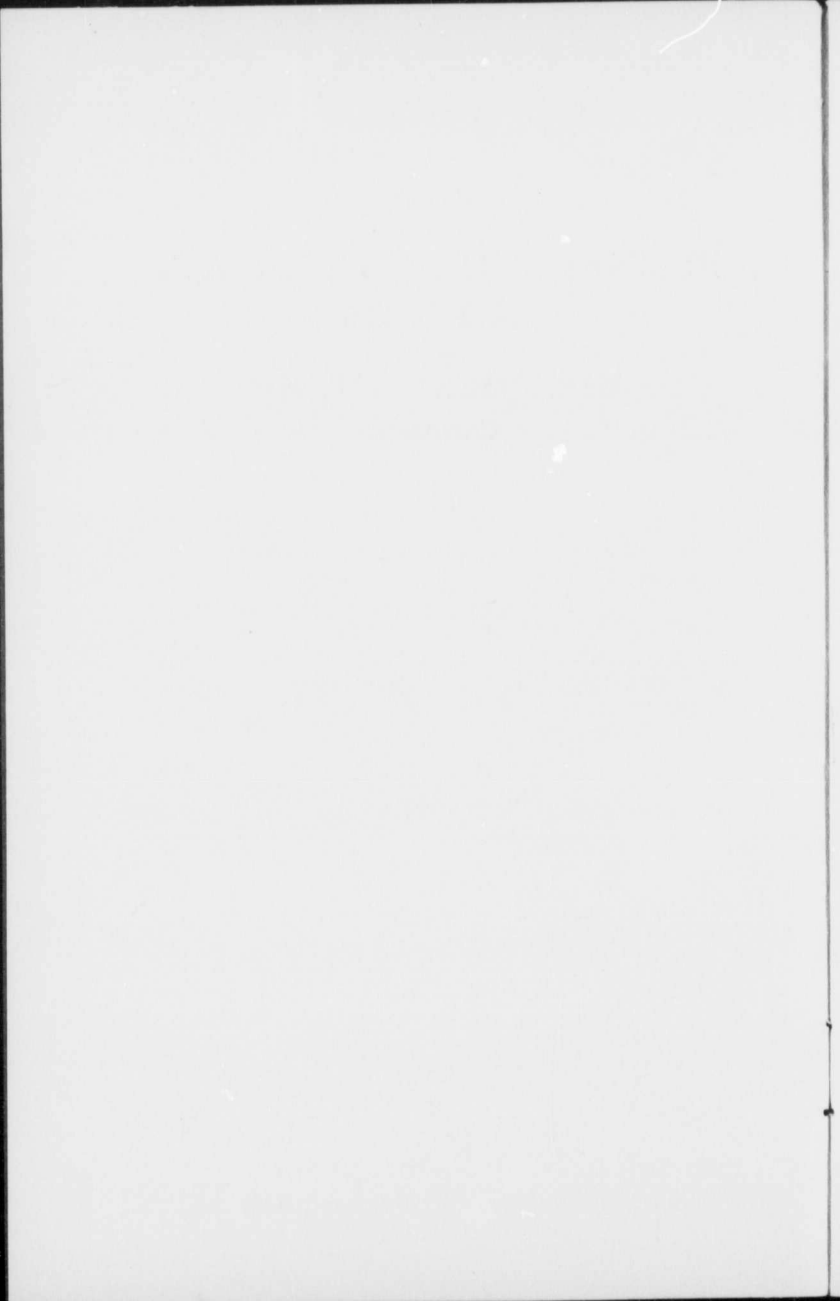
DIGEST
OF THE
BUSINESS PROFITS WAR TAX
ACT, 1916
AND
AMENDMENT ACT, 1917
CANADA

With the Compliments of
THE ROYAL BANK OF CANADA

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Nov. '17



THE BUSINESS PROFITS WAR TAX ACT, 1916

6-7 Geo. V., Chap. 11, and AMENDMENT ACT, 1917,
7-8 Geo. V., Chap. 6

Definitions

"Minister" means the Minister of Finance.

"Board" means the Board of Referees appointed under Section 9.

Sec. 2
(a to f)

"Non-Canadian Company" means an incorporated company having its head office or principal place of business outside Canada, but having assets in or carrying on business in Canada, either directly or through or in the name of any other person.

"Person" means any individual or person and any partnership, syndicate, trust, association or other body and any body corporate, and the heirs, executors, administrators, curators and assigns or other legal representatives of such person, according to the law of that part of Canada to which the context extends.

"Tax" means the tax authorized by Section 3.

"Taxpayer" means any person paying, liable to pay, or believed by the Minister of Finance to be liable to pay, any tax imposed by this Act.

Amount of Tax

In the case of a business owned by an incorporated company, profits earned in excess of 7% per annum are subject to a tax of 25% of the amount by which such profits exceed 7%. In the case of a business owned by any other person, a tax of 25% is levied on profits in excess of 10% per annum upon the capital employed. (These taxes are payable for each and every accounting period ending after December 31, 1914.)

Where profits in any business exceed 15% per annum the above taxes are increased to 50% with respect to profits

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

in excess of 15%, but not exceeding 20%. Where profits exceed 20% per annum the tax is increased to 75% with respect to all profits in excess of 20%. (These taxes on excess profits are payable for each and every accounting period ending after December 31, 1916.)

Provided, however:

- (a) That the amount payable by any person under the provisions of Part I of the *Special War Revenue Act, 1915*, be deducted from the amount payable under the provisions of this Act.
- (b) That the dividends received from the stock of any incorporated company which has paid a tax upon its profits under the provisions of this Act shall not be included when the profits of any business are being determined.
- (c) That the amount of any tax paid under the provisions of the *Finance Act (No. 2), 1915*, of the United Kingdom, or under any legislation of the Government of India, or of any British colony or dependency, or any allied country or any other country that may become an ally of Great Britain in the present war, or the colonies or dependencies of any such countries, in respect of any business liable to taxation hereunder shall be deducted from the amount of the tax that would otherwise be payable under this Act.

Accounting Period

Sec. 4

The accounting period is the period for which the accounts of any business have been made up. Where accounts have not been made up for any definite period, or for the period for which they have been usually made up, or if a year or more has elapsed without accounts having been made up, then the accounting period shall be taken to be such period and ending on such date as the Minister may determine.

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

Trades and Businesses to Which This Act Applies

This Act applies to all trades and businesses (including *Sec. 5* transportation) of any description carried on, or partly carried on, in Canada, whether continuously or not, *except*:—

- (a) The business of any person the capital employed in which has been throughout the accounting period less than \$50,000, other than a business which, or 20% or more of which, is or has been the manufacturing or dealing in munitions of war or in materials or supplies of any kind for war purposes.
- (b) The business of life insurance.
- (c) The business of farming and live stock raising.
- (d) The business of any company, commission or association not less than 90% of the stock or capital of which is owned by a province or municipality.

Examples:

I.—The Tax on Profits of an Incorporated Company

(a) CAPITAL \$80,000 (being not less than \$50,000)
 Profits \$9,600, or 12% (being not more than 15%)

| PROFITS | TAX |
|----------------------------------|------------------------|
| \$5,600, or up to 7% exempt..... | |
| 4,000 at 25%..... | \$1,000 |
| \$9,600 | Total Tax..... \$1,000 |

(b) CAPITAL \$100,000 (being not less than \$50,000)
 PROFITS \$50,000, or 50% (being in excess of 15%)

| PROFITS | TAX |
|---|-------------------------|
| \$ 7,000, or up to 7% exempt..... | |
| 8,000, 25 % on profits up to 15%.... | \$ 2,000 |
| 5,000, 50% on profits up to 20%.... | 2,500 |
| 30,000, 75% on profits in excess of 20%..... | 22,500 |
| \$50,000 | Total Tax..... \$27,000 |

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(c) CAPITAL \$40,000 (being less than \$50,000)

Profits exempt from tax if the Company is not making, or dealing in, Munitions or War supplies. (Sec. 5(a)).

(d) CAPITAL \$40,000, although less than \$50,000, if the Company is exclusively making, or dealing in, Munitions or War supplies it is subject to tax. (Sec. 5(a)).

PROFITS \$8,000, or 20%

| PROFITS | TAX |
|-------------------------------------|----------------|
| \$2,800, or up to 7% exempt..... | |
| 3,200, 25% on profits up to 15%.... | \$ 800 |
| 2,000, 50% on profits up to 20%.... | 1,000 |
| \$8,000 | Total Tax..... |
| | \$1,800 |

(e) CAPITAL \$40,000, although less than \$50,000, if more than 20% of profits are from the manufacture of, or trading in, Munitions or War supplies, the company's total profits are subject to the tax. (Sec. 5(a)).

PROFITS \$10,800, or 27%

| PROFITS | TAX |
|--|----------------|
| \$2,800, or up to 7% exempt..... | |
| 3,200, 25% on profits up to 15%..... | \$ 800 |
| 2,000, 50% on profits up to 20%..... | 1,000 |
| 2,800, 75% on profits in excess of 20%.. | 2,100 |
| \$10,800 | Total Tax..... |
| | \$3,900 |

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II.—The Tax on Profits of an Individual, Partnership, Etc., Other than an Incorporated Company

(a) **CAPITAL \$80,000** (being not less than \$50,000)

PROFITS \$9,600, or 12% (being not more than 15%)

| PROFITS | TAX |
|-----------------------------------|----------------------|
| \$8,000, or up to 10% exempt..... | |
| 1,600, at 25%..... | \$400 |
| \$9,600 | Total Tax..... \$400 |

(b) **CAPITAL \$100,000** (being not less than \$50,000)

PROFITS \$50,000, or 50% (being in excess of 15%)

| PROFITS | TAX |
|---|-------------------------|
| \$10,000, or up to 10% exempt..... | |
| 5,000, 25% on profits up to 15%..... | \$ 1,250 |
| 5,000, 50% on profits up to 20%..... | 2,500 |
| 30,000, 75% on profits in excess of 20%..... | 22,500 |
| \$50,000 | Total Tax..... \$26,250 |

(c) **CAPITAL \$40,000** (being less than \$50,000)

Profits exempt from Tax if the Individual, Partnership, etc., is not making, or dealing in, Munitions or War supplies. (Sec. 5(a)).

(d) **CAPITAL \$40,000**, although less than \$50,000, if Individual, or Partnership, etc., is exclusively making, or dealing in, Munitions or War supplies it is subject to tax. (Sec. 5(a)).

PROFITS \$8,000, or 20%

| PROFITS | TAX |
|-------------------------------------|------------------------|
| \$4,000, or up to 10% exempt..... | |
| 2,000, 25% on profits up to 15%.... | \$ 500 |
| 2,000, 50% on profits up to 20%.... | 1,000 |
| \$8,000 | Total Tax..... \$1,500 |

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- (e) CAPITAL \$40,000, although less than \$50,000, if more than 20% of profits are from the manufacture of, or trading in, Munitions or War supplies, the total profits are subject to the tax. (Sec. 5(a)).

PROFITS \$10,800, or 27%

| PROFITS | TAX |
|--|------------------------|
| \$4,000, or up to 10% exempt..... | |
| 2,000, 25% on profits up to 15%..... | \$ 500 |
| 2,000, 50% on profits up to 20%..... | 1,000 |
| 2,800, 75% on profits in excess of 20%.. | 2,100 |
| \$10,800 | Total Tax..... \$3,600 |

III.—The Tax on Profits under the “Business Profits War Tax Act” and the “Income War Tax Act”

NOTE—Taxpayers may deduct the Tax under the “Business Profits War Tax Act” from the Income Tax. If the Business Profits Tax is the greater, it is the only tax payable.

Examples

(a) AN INCORPORATED COMPANY

CAPITAL \$80,000, PROFITS \$9,600, or 12%
Under “Business Profits Act”

| | |
|-----------------------------|----------|
| Up to 7%, or \$5,600..... | Exempt |
| 12%, or \$4,000 at 25%..... | \$1,000* |

Under “Income Tax Act”

| | |
|---------------------|---------|
| Profits..... | \$9,600 |
| Exempt..... | 3,000 |
| Taxable Income..... | \$6,600 |
| Normal Tax, 4%..... | \$264 |

*The Business Profits Tax, being the greater, is the only tax paid. If the Business Profits Tax were less than the Income Tax, it would still be paid in full, but the amount so paid would be deducted from the tax payable under the Income Tax Act.

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

(b) AN INDIVIDUAL†

CAPITAL \$100,000, PROFITS \$43,000, or 43%

Under "Business Profits Act"

| | |
|---------------------------------|---------|
| Up to 10%, or \$10,000..... | Exempt |
| 15%, or 5,000 at 25%..... | \$1,250 |
| 20%, or 5,000 at 50%..... | 2,500 |
| Over 20%, or 23,000 at 75%..... | 17,250 |

\$21,000*

Under "Income Tax Act"

| | |
|--------------|----------|
| Profits..... | \$43,000 |
| Exempt..... | 3,000 |

Taxable Income..... \$40,000

| | |
|---------------------------------------|---------|
| Normal Tax and Super-Taxes } | \$4,280 |
|---------------------------------------|---------|

*The note to Example (a) also applies to this Example.

†In the case of a *Partnership*, the Partnership would pay the tax of \$21,000, but each partner would be entitled to deduct from his personal Income Tax such proportion of the Business Profits Tax as may correspond to his interest in the income of the partnership.

Computation of Profits

Profits are the net profits arising in the accounting period. Sec. 6
Sub-Sec. 1

The profits of a non-Canadian company are the net profits arising from its Canadian business including both domestic and export business. Sec. 6
Sub-Sec. 2

No deductions from gross profits for depreciation or for any expenditure of a capital nature for renewals, or for the development of a business, are allowed, except such amount as appears to the Minister to be reasonable and to be properly attributable to the accounting period. The Minister, when determining profits derived from mining, shall make an allowance for the exhaustion of the mines. Sec. 6
Sub-Sec. 3

Any deduction made from gross profits for the remuneration of Directors, Managers and other persons concerned in the management of a business may not, unless the Minister otherwise directs, exceed the sums deducted for such purposes in the last accounting period ending before January 1, 1915. No deductions shall be allowed in respect of any transaction Sec. 6
Sub-Sec. 4

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where it appears, or to the extent to which it appears, that the transaction has improperly reduced the amount of the profits for the purposes of this Act.

Sec. 6
Sub-Sec. 5

In the case of a contract extending beyond one accounting period from the date of commencement to its completion and only partially performed in any accounting period, there shall, unless the Minister directs otherwise, be attributed to each of the accounting periods in which such contract was partially performed, such proportion of the entire profits or estimated profits in respect of the complete performance of the contract as shall be properly attributable to such accounting periods respectively, having regard to the extent to which the contract was performed in such periods.

Sec. 6
Sub-Sec. 6

If any incorporated company conducts its business, whether under agreement or otherwise, in such manner as to benefit its shareholders, or other persons directly or indirectly interested in such company, by selling its product at less than the fair price which might have been obtained, the Minister may determine the amount which shall be deemed to be the profits of such company. In determining such profits the Minister will have regard to the fair price which, but for any agreement or understanding, could have been obtained for such product.

Capital

Sec. 7
Sub-Sec. 1

The capital employed in the business of an incorporated company having its head office or principal place of business in Canada is the amount paid up on its capital stock.

Sec. 7
Sub-Sec. 2

The capital employed in the business of a non-Canadian company is such portion of the amount paid up on its capital stock as bears the same proportion to the amount paid up on its entire capital stock as the value of its assets in Canada bears to the value of its total assets.

Sec. 7
Sub-Sec. 3

The amount paid up on the capital stock of a company is the amount paid in cash. If stock was issued before January 1, 1915, for any consideration other than cash, the fair value

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

of such stock on such date is deemed to be the amount paid up. If stock has been issued since January 1, 1915, for any consideration other than cash, the fair value of the stock at date of issue is deemed to be the amount paid up. In estimating the value of stock issued for any consideration other than cash, regard is had to the value of the assets and liabilities of the company at the date at which such value is determined. In no case will the value of the stock be fixed at an amount exceeding the par value.

The actual unimpaired reserve, rest or accumulated profits held at the commencement of an accounting period by an incorporated company is included as part of its capital as long as it is held and used by the company as capital. Sec. 7
Sub-Sec. 4

The Minister may determine the amount of capital of any incorporated company issuing stock after February 15, 1916. If, after that date, the capital stock of any incorporated company is increased, or if the stock is in any way changed or re-organized in such a manner as to increase the capital, the Minister will decide whether or not it is fair and proper to include such increase when determining the amount of the capital stock of such company. The decision of the Minister is final. Sec. 7
Sub-Sec. 5

Capital Other than that of an Incorporated Company

The capital employed in any business other than that of an incorporated company is taken to be the fair value of its assets used in connection with the business during the accounting period. Sec. 8
Sub-Sec. 1

Accumulated profits employed in the business are deemed to be capital. Sec. 8
Sub-Sec. 2

Any money borrowed or debts incurred in connection with the business are deducted in computing the amount of capital. Sec. 8
Sub-Sec. 3

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

Board of Referees

Sec. 9 The Governor-in-Council may appoint a Board, or Boards, of Referees to act as a Court, or Courts, of Revision. (See Secs. 15-21.)

Return Required

Sec. 10
Sub-Sec. 1 A return on Form "J" of the Schedule to this Act must be delivered to the Minister of Finance, without notice or demand, on or before the first day of July in each year. In this return the taxpayer must state an address in Canada to which all notices, etc., shall be mailed or sent.

Sec. 10
Sub-Sec. 2 In the case of a partnership, syndicate, association, etc., the return shall be prepared and signed by a member or officer having a personal knowledge of the affairs of such partnership or other body. In the case of an incorporated company the return shall be prepared and signed by the president, secretary-treasurer or chief agent having a personal knowledge of the affairs of such corporation.

Sec. 10
Sub-Sec. 3 The Minister may at any time extend the time for making the required return.

Secs. 11
and 12 These sections empower the Minister to demand further information if he deems it necessary, also the production on oath of any books, letters, statements or other documents, in default of which a taxpayer is liable to a penalty of \$100 for each day during which the default continues. Any person making a false statement will be liable to a penalty not exceeding \$10,000 or to six months' imprisonment, or to both fine and imprisonment.

Assessment and Date of Payment of Tax

Sec. 13
Sub-Sec. 1 The Minister shall, on or before September 1st in each year, or on or before such other date as he may in any case or cases prescribe, determine the amounts payable under this Act and shall send by registered mail a notice of assessment to each taxpayer notifying him of the amount payable by him. *The*

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

tax shall be paid each year within one month from the date of mailing of the notice of assessment. In default of payment, interest at the rate of 7% per annum will be charged.

Any person liable to the tax shall continue to be liable for the period of three years from the time at which such tax would have been payable. In case any person so liable fails to make a return, or shall make an incorrect or false return, and does not pay the tax in whole or in part, the Minister may at any time within the said three years assess such person for the tax, or such portion as he may be liable to pay, and may prescribe the time within which appeal may be made from the assessment or from the decision of the Board of Referees. Sec. 13
Sub-Sec. 3

Secrecy

No person employed in the service of His Majesty shall communicate or allow to be communicated to any person not legally entitled thereto any information obtained under the provisions of this Act, or allow any such person to inspect or have access to any written statement furnished under the provisions of this Act. Any person violating any of the provisions of this section shall be liable on summary conviction to a penalty not exceeding \$200. Sec. 14

Board of Referees as a Court of Revision

Sections 15 to 18 provide for the appointment of a Board, or Boards, of Referees as a Court of Revision to hear and determine any appeal made by the taxpayer under this Act. Secs. 15-18

Appeal to Exchequer Court

Under these sections a taxpayer who is dissatisfied with the decision of the Board may give written notice within twenty days to the Minister of Finance of his desire to appeal. The Minister will then refer the matter to the Exchequer Court of Canada for hearing. The decision of the latter shall be final. Secs. 19-21

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

Taxes as Debts Due to Crown and a Lien upon the Taxpayer's Property

Secs. 22-25 Under Sections 22 to 25 taxes and interest and costs are held to be recoverable as debts due to the Crown and a lien and charge upon the property, real or personal, movable or immovable, of the taxpayer.

Duration of Tax

Sec. 26 The provisions of Section 3 of this Act shall not continue in force after December 31, 1917, provided, however, that with respect to every business liable to taxation the period for which the returns shall be made and during which it shall be liable for assessment, shall be at least thirty-six months, commencing with the beginning of the first accounting period ending after December 31, 1914, or for such less period as the business may have been carried on from the beginning of the said accounting period to the end of the period for which the tax may be levied under this Act.

FORM J.

THE BUSINESS PROFITS WAR TAX ACT, 1916.
For Persons other than Incorporated Companies.

| Name of Taxpayer | Address | Address in Canada to which notices, etc., may be sent | Capital employed in Business | Money borrowed and debts due by taxpayer in connection with Business | Gross Profits | Net Profits | Accounting Period |
|------------------|---------|---|------------------------------|--|---------------|-------------|-------------------|
| | | | | | | | |

(Signature)

For Incorporated Companies.

15

| Name of Company | Address of Head Office | Bonds including Debenture Stock. | Capital Stock Paid Up | | Unimpaired reserve, rest or accumulated profits | Total of Paid Up Stock, reserve, rest and accumulated profits | Gross Profits | Net Profits | Accounting Period | Value of assets in Canada* | Value of Assets outside Canada* | Profits of Canadian business* |
|-----------------|------------------------|----------------------------------|-----------------------|---------|---|---|---------------|-------------|-------------------|----------------------------|---------------------------------|-------------------------------|
| | | | Pre-ferred | Com-mon | | | | | | | | |
| | | | | | | | | | | | | |

(Signature)
(Rank of Official)

*This information only required from companies having their head office or other place of business outside Canada.
Address in Canada to which notices, etc., may be sent)

DIGEST OF THE BUSINESS PROFITS WAR TAX ACT

FORM K.

THE BUSINESS PROFITS WAR TAX ACT, 1916

In the matter of the assessment of.....
To the Minister of Finance:—

I hereby give notice that I object to the amount at which
I am assessed for the following reasons:

(Here shortly describe reasons)

or I am not liable to taxation under the above Act for the
following reasons:

(Here shortly describe reasons)

Dated this.....day of.....19..

(Signature).....

FORM L.

THE BUSINESS PROFITS WAR TAX ACT, 1916

In the matter of the assessment of.....
To the Minister of Finance:—

I hereby give notice that I am dissatisfied with the decision
given by the Board of Referees in this matter for the following
reasons:

(Here shortly describe reasons)

and that I desire to appeal to the Exchequer Court of Canada.

Dated this.....day of.....A.D. 19..

(Signature).....

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The Royal Bank of Canada

| | |
|------------------------------------|---------------|
| Capital Authorized..... | \$ 25,000,000 |
| Capital Paid Up..... | 12,911,700 |
| Reserve and Undivided Profits..... | 14,324,046 |
| Total Assets over..... | 311,000,000 |

HEAD OFFICE - MONTREAL

BOARD OF DIRECTORS:

Sir Herbert S. HOLT, President E.L. PEASE, Vice-President
E. F. B. JOHNSTON, K.C., 2nd Vice-President

OFFICERS

E. L. PEASE, Managing Director
C. E. NEILL, General Manager
F. J. SHERMAN, Asst. Gen. Manager
W. B. TORRANCE, Supt. of Branches

BRANCHES IN CANADA AND NEWFOUNDLAND

175 in Ontario and Quebec
78 in Maritime Provinces
69 in Central Western Provinces
38 in British Columbia
6 in Newfoundland

BRANCHES IN WEST INDIES:

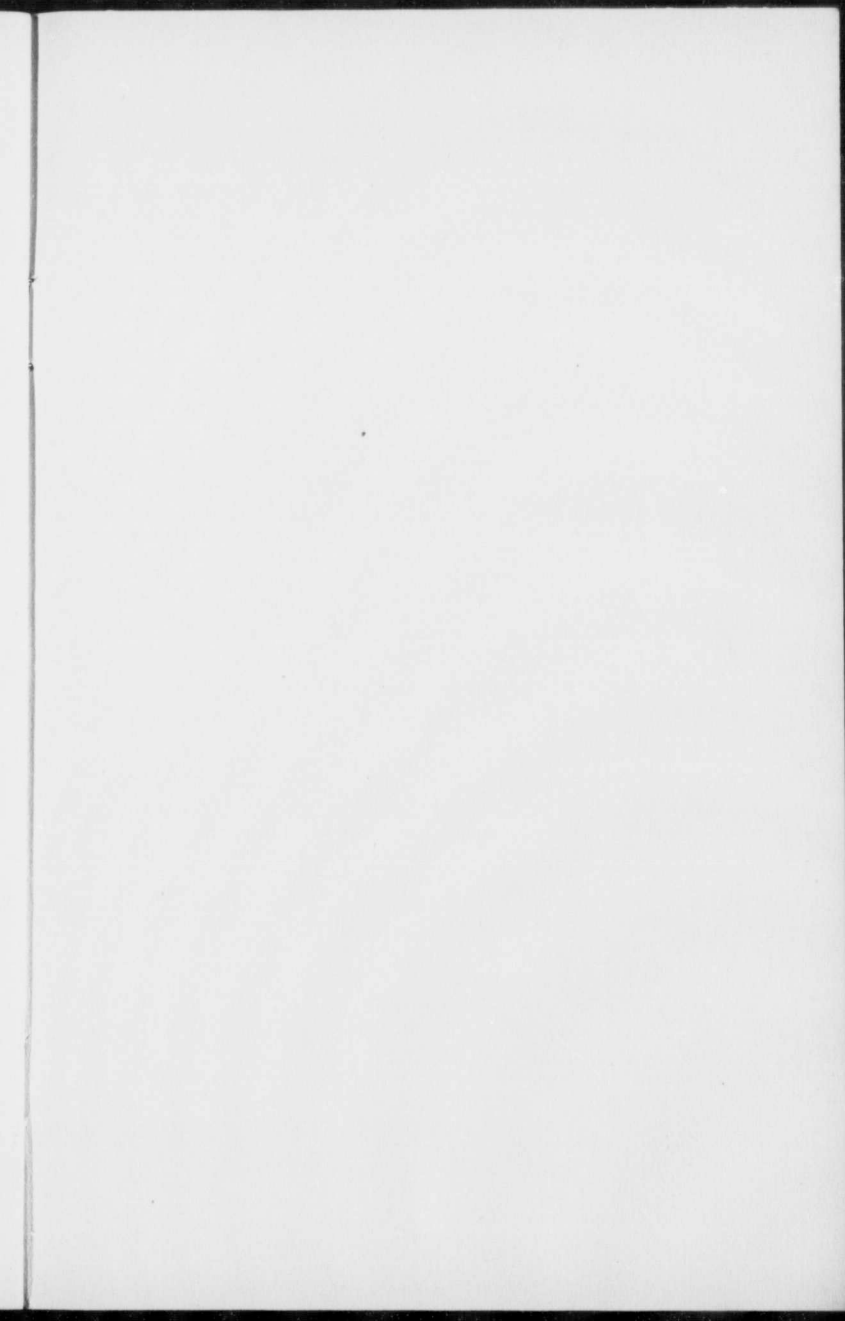
Cuba—Havana, Santiago and 22 other points
Porto Rico—San Juan and 2 other points
Dominican Republic—Santo Domingo and 4 other points
Antigua—St. John's; Baha- Jamaica—Kingston; Nevis
mas—Nassau; Barbados— —Charlestown; St. Kitts—
Bridgetown and Speights- Basseterre; Trinidad—Port
town; Dominica—Roseau; of Spain, San Fernando; To-
Grenada—St. George's; bago—Scarborough

BRANCHES IN CENTRAL AND SOUTH AMERICA

British Honduras—Belize
British Guiana—Georgetown and 2 other points
Costa Rica—San José, Limon
Venezuela—Caracas, Ciudad Bolivar, Maracaibo, etc.

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