THE ROYAL ASSENT

A message was delivered by Charles H. Larose, Esquire, Acting Gentleman Usher of the Black Rod, as follows:

Mr. Speaker, His Honour, the Deputy Administrator, desires the immediate attendance of this honourable house in the chamber of the honourable the Senate.

Accordingly the house went up to the senate.

And having returned.

Mr. SPEAKER informed the house that the Deputy Administrator had been pleased to give in His Majesty's name the royal assent to the following bills:

An act for granting to His Majesty certain sums of money for the public service for the fiscal year ending March 31, 1946.

An act for carrying into effect the agreement for a food and agricultural organization of the united nations between Canada and certain other nations and authorities.

CANADA PRIZE ACT

PRIZE COURTS AND PRIZE LAW—EXCHEQUER COURT JURISDICTION

The house resumed consideration of the motion of Mr. St. Laurent for the second reading of Bill No. 10, to provide for a prize court and prize law in Canada.

On motion of Mr. Hackett the debate was adjourned.

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. J. L. ILSLEY (Minister of Finance) moved:

That Mr. Speaker do now leave the chair for the house to go into committee of ways and means.

He said:

I

FINANCIAL REVIEW

Mr. Speaker, in presenting to the house tonight the government's proposals for meeting the financial requirements of the present fiscal year in a budget, which is the first to follow the cessation of hostilities both in Europe and in the Pacific, I am reminded that six years and one month ago, on September 12, 1939, I presented at the special session of parliament, on behalf of the then Minister of Finance, the first budget following the outbreak of war.

I was impelled to warn at that time against expecting the war "to be a short and only moderately expensive one" and said further, "We must make our plans now with the full realization that we may be in for years of strenuous national effort". Though we foresaw the kind of problems we would have to meet and something of the magnitude of the effort, none of us realized how strenuous or how long those years would be.

It is a matter for great thankfulness that we have accomplished the task and that we can now confront, in good order and in good heart, a future which is filled with problems and difficulties but also with promise.

It was helpful to me in preparing this budget, and I think it will be helpful to the house, to take a glance back over the rugged path which we have travelled before turning our attention to the road ahead.

In the budget speech of September 1939, certain broad principles of war finance were laid down. The first one was that we should "follow as far as may be practicable a pay-as-you-go policy". It was explained that in the view of the government this meant a rapid increase in the level of taxation as our war effort and national income expanded, having due regard to the needs of war, the necessity of preserving incentive, and the need for allowing individual savings to be made. In the course of the war, the government was seldom criticized for not pressing forward rapidly enough on this policy.

The income tax was increased by 20 per cent in 1939 and moved in three more swift steps to the full war level established in the budget of 1942. The increase to this level of income taxation with the provision for refundable taxes was made possible by the withdrawal of the provincial governments from the income tax fields under the agreements of 1941. In 1943, without increasing the general level of the personal income tax, the pay-as-you-earn system was adopted and collections put on a current basis. In the course of these changes, by advancing the dates of payment we were able to augment the revenue of the war years substantially. With the exception of the cancellation of the refundable feature of the personal income tax in 1944 and of minor amendments, the taxation of personal incomes remains at the level established in 1942.

The Excess Profits Tax Act, provisionally enacted in the fall of 1939, was given its present form in 1940, and in 1942 the rate on the "excess profits" was increased to 100 per cent of which 20 per cent is to be refunded. Succession duties were first imposed in 1941 and have not been changed since except in minor degree.

In 1940 and 1941 new and increased commodity taxes were imposed for exchange reasons, to encourage transfer to war production and for revenue. Since 1942 the main increases in taxation have been in indirect taxes applying to commodities and services which were not necessaries of life and of which frequent purchase gave some evidence of ability to pay.

By about the middle of the war we had thus reached nearly the full war-time level of taxation. By previous Canadian standards, the level of taxes was enormously high. It was, however, by no means the highest tax level among comparable countries and, generally speaking, the taxation of the lower incomes was less severe than in other countries.

The result of the balance we endeavoured to keep between taxation and borrowing has been that up to March 31, 1945, after meeting all other expenditures, we covered about 45 per cent of our war expenditures out of current revenues.

The second principle enunciated in September 1939 was that, after an initial credit expansion, designed to facilitate a rapid increase in production, we should endeavour to limit our borrowings as closely as possible to the genuine savings of the country. In pursuit of this principle, our initial borrowing was from the chartered banks, followed by a war loan offered to the public but not distributed among individuals by the intensive effort which has characterized the victory loans. In May 1940, war savings certificates were instituted and the campaign to increase savings which is still being carried on was begun. With the first victory loan of May 1941, full emphasis was given to borrowing the savings of individuals, and the organization which later became the national war finance committee began the notable and patriotic work which they are still carrying on with such great initiative and thoroughness. In the first victory loan the number of individual cash subscriptions was 946,549. In the eighth victory loan of last May, the number of individual subscriptions was 3,178,275. I trust that in the ninth victory loan which is being offered to the public this month this great number will be maintained or exceeded. It is difficult to estimate the importance for the future of the very large savings now held by individuals in this country. It is possible to make a rough estimate only of the savings held by Canadian individuals in certain liquid forms. Such an estimate, which cannot be too wide of the mark, indicates that as of May 31, 1945, in currency, bank deposits, refundable taxes and Dominion government securities, Canadian individuals held savings of more than nine and a half bilion dollars and that these savings had increased by more than six and a half billions since the end of 1938. The major item in these savings is dominion government securities estimated at five and a quarter billion dollars. These figures do not, of course, include all the savings of individuals but only savings held in the liquid forms specified. They do not include savings in the form of insurance, pensions, homes, or corporate securities.

The third principle which we set out at the beginning of the war was that in our borrowings we would endeavour to set the rates of interest as low as possible. We began our public borrowings in January 1940 with the issue of a 3¼ per cent bond having an average maturity of ten years. The long-term issue which is being offered in the ninth victory loan has a term of twenty years and ten months and carries a rate of 3 per cent. At the rates now obtaining, a ten-year bond such as was issued at 3¼ per cent in January 1940 could now be issued at 2·59 per cent. As of March 31, 1939, the average rate of interest paid on the funded debt was 3·52 per cent. On March 31, 1945, the average rate had fallen to 2·51 per cent.

The fourth principle laid down for wartime financial policy was part and parcel of the other principles. It was a definite rejection of the methods of inflationary finance. That principle has affected all our operations in the fields of taxation and borrowing but its pursuit has also led us to many major decisions in other fields. It emerged in its most comprehensive form in the historic decision of October 1941, to consolidate our wage controls, institute salary control and impose a comprehensive price ceiling as of that period. The progressive development of many additional controls over the supply and distribution of goods lent support to this structure.

These simple principles have led us a long way. They have permeated war-time financial and economic policies and have given them solidity and coherence. The carrying out of these policies throughout the fields of finance and economic stabilization has been recognized, I think, as one of the most substantial of our war-time achievements and one most appreciated by the people of this country.

I have recalled briefly some of these points of war-time policy as foreshadowed in the first war-time budget because we now stand at the beginning of a new period and face new conditions and new problems. The policies which we have followed during the war have an important bearing on the choices which now confront us.

GOVERNMENT ACCOUNTS AND FINANCING, 1944-45

It is only right that I should say something concerning the financial results of the fiscal year ending March 31, 1945, but I shall confine myself to a few brief statement since the present fiscal year is already half gone and the final figures for 1944-45 are given in some detail in the budget papers which I shall table before sitting down. Further, the full public accounts for the past fiscal year will, I hope, be presented to the house shortly.

In the year 1944-45, total revenues, including refundable taxes, amounted to somewhat more than $2,900 million, a slight decrease from the revenues of the previous year. Total tax revenues, including refundable taxes, were somewhat down from the previous year, at $2,374 million. This moderate reduction in tax revenues occurred mainly in the yields of the personal income tax and the corporation tax, and to a less extent the excess profits tax. Among commodity taxes, the revenues from spirits and malt, cigars, cigarettes and tobacco, and gasoline, all showed substantial increases.

Ordinary expenditures for the year were $767 million compared with $630 million in the previous year. More than half of this increase was the result of increased public debt charges. The other major increase was in the expenditures of the Department of Veterans Affairs. War expenditures, including Mutual Aid, were $4,400 million, or slightly lower than in the previous year. The grand total expenditure was $5,246 million, about $75 million less than the previous year. Since total revenue, exclusive of refundable taxes, was $2,687 million, the over-all deficit for the year was $2,558 million, or approximately $1 million greater than in the previous year. This amount is the extent of the increase in the net debt during the year.

Other financial requirements for loans and advances and investments are set out in some detail in the budget papers which I shall table and I shall not attempt to review them here except to say that the amounts have turned out to be smaller than I anticipated in the budget of last year. Total borrowings for the year, including refundable taxes, amounted to approximately $3,360 million. Of this, $219 million was obtained in refundable taxes and $2,948 million through the sale of victory bonds and war savings certificates. I should say here that, as explained in the budget papers, the amount set aside for refundable taxes is abnormally high. It has been found as returns are assessed that taxpayers have tended to credit too much of their payments to the corporation tax and too little to the excess profits tax or not to distinguish between them. It has become necessary therefore to increase the liability for refundable taxes. The remaining borrowings were obtained by an increase in treasury bills and deposit certificates outstanding, and in the floating debt. The total amount borrowed, $3,360 million, was used to meet maturities of $252 million, to increase holdings of cash by $152 million, and to finance the cash deficiency of $2,955 million arising from the budgetary deficit and the loans, advances and investments made during the year.

As at March 31, 1945, the total unmatured funded debt, including refundable taxes, amounted to $13,984 million. The net debt was $11,298 million, having increased during the year by the amount of the budgetary deficit. The funded debt carried annual interest charges of $351,590,000. The average rate of interest was 2·51 per cent as compared with 2·54 per cent as at March 31, 1944.

The most notable financial operations of the year were the successful conclusion of the two great victory loan campaigns. The achievements of the national war finance committee in the sixth and seventh victory loans in the fiscal year 1944-45 were exceeded only by their later success early in this fiscal year in carrying out the eighth victory loan.

II

BUDGET FORECAST 1945-46 AND FINANCIAL PROPOSALS

The financial proposals which I have to lay before the house are for the requirements of the current fiscal year 1945-46 but I realize that with six months of the fiscal year gone by and with hostilities ended I shall be expected to look further forward than the end of March next. The budget which I am presenting is a war budget in that, as I have already told the house, war and demobilization expenditures will continue for a short time at high levels even though hostilities have ended and though the demands of the armed services on men and materials have fallen and are falling rapidly. The financial needs of war and demobilization are still very great in this as in every other country. On the other hand, this is also the first peacetime budget and its effects on employment and income must be accepted as of major importance.

The expenditure estimates for this fiscal year are known to the house. The main estimates covering non-war expenditures require $1,024 million. The war estimates stand at $3,365 million. The expected expenditures for war service gratuities and reestablishment credits as authorized by statute are $240 million. We expect that we shall need to ask about $30 million by way of supplementary estimates. Our total expenditures for the year are therefore estimated to be approximately $4,650 million.

On the revenue side it is estimated that under our present tax laws, revenues in 1945-46, not including the refundable portion of the taxes, will be $2,515 million, as compared with $2,687 million in the previous year. I shall place on *Hansard* a statement showing the details of this estimate in comparison with the revenues of 1944-45:

	1945-46 (millions)	1944-45 (millions)
Customs duties	$ 120	$ 115
Excise duties	175	152
Sales tax (net)	225	210
War exchange tax	75	98
Other excise taxes	250	236
Income taxes:		
Personal	725	768
Corporate and excess profits tax	710	742
Interest and dividends	29	28
Succession duties	20	17
Miscellaneous	8	8
Total tax revenue	$2,337	$2,374
Less refundable taxes	72	219
Net tax revenue	$2,265	$2,155
Non-tax revenue	150	145
Total ordinary revenue	$2,415	$2,300
Special receipts	100*	387
Total revenue	$2,515	$2,687

* Arbitrary estimate.

It is indicated in the table that under the present tax laws we anticipate some declines in the sales tax and the war exchange tax, though the declines will be partly offset by the reduction of refunds on purchases for other governments. We anticipate some increase in revenues from excise duties and from excise taxes on tobacco. We likewise anticipate that there will be moderate increases in the revenues from excise taxes on retail purchases, gasoline, amusements and similar taxes. Personal income tax would be expected to decline somewhat were it not for the channelling back through this tax of repayments of the portion of family allowances which duplicates the tax credits allowed to taxpayers in respect of dependent children. We look for some substantial decline in the combined revenue from the corporation income tax and excess profits tax.

On these estimates there will be a decline of about $150 million in our revenues this year, though this decline is to be attributed to the distribution of rebates and refunds as between this year and last year. Taking approximate figures, expenditures of $4,650 million and revenues of $2,500 million would result in a budgetary deficit for 1945-46 of $2,150 million, or approximately $350 million less than the deficit last year.

I have explained to the house on an earlier occasion that, as in other years, we will have substantial financial requirements outside the budget. It will be necessary in the reconstruction period to extend credits to allied countries for the financing of their needs and of our export trade. On a later occasion the house will be asked to approve a very large increase in the amount already provided under the Export Credits Insurance Act and to make such provision for other loans and investments as may be required. Though these amounts cannot be fully estimated at this time, it is anticipated that to provide such credits and to make loans to the foreign exchange control board may require in the neighbourhood of $800 million this year, bringing our total financial requirements for the year to about $5,400 million, an amount which is $300 million less than the total cash requirements of the past fiscal year. No provision has been included in these figures for subscriptions to the international monetary fund or the international bank for reconstruction and development, to which, if the house approves the legislation to be introduced, only token contributions would be made this year.

These are our requirements up to March 31, 1946 and, while they represent a reduction from the previous year and some shift from expenditures to loans, they are, as the house will see, at a very high level. These requirements in themselves do not suggest that the Minister of Finance is in a position to forgo any revenue which he might otherwise obtain.

In thinking over the financial problems of an initial peace-time budget, I had occasion to look back to the budgets of 1919 and 1920 following the first world war. I found that in June, 1919, seven months after the end of hostilities, the then Minister of Finance estimated an increase in expenditures for 1919-20 and that in fact his estimate proved to be much too low. I found that the income tax, which was then admittedly at very low levels by present day standards, was increased in that budget by amounts ranging from about a third to 100 per cent of the existing rates and that the corporation tax was increased. In May, 1920, the personal income tax was again increased by adding 5 per cent to the rates in all brackets above $5,000 and an imposing array of luxury taxes was proposed, although some of them were later withdrawn. The business war profits tax was extended for another year, though its effect was alleviated somewhat by raising the exempted rate of earnings from 7 per cent to 10 per cent. The 7½ per cent customs war duty was removed from all imports. In 1921 the business war profits tax was discontinued but the sales tax was instituted and there was some increase in excise duties.

I have not referred to these budgets of my predecessors to make any unfavourable comparison or to question the judgment which they applied to the circumstances of their time. It is, however, I think, important to realize that the rapid increase in taxation which we were able to accomplish during the war and to which the people of this country gave such loyal support has left us less restricted in our choices to-day than were the ministers of finance at the end of the last war. I would further point out that, while they found as I have found that war expenditures do not drop as quickly as do war activities, nevertheless most of the increase in government expenditures following the first world war was the direct result of the wartime and post-war inflation which drove up prices and with them unavoidably government expenditures. No one is more impatient than the Minister of Finance at the slowness with which war expenditures decline. Nevertheless, they did in fact begin to decline this year as soon as hostilities ceased and our stabilization policy has so far saved us from facing that post-war increase in expendtiures which was so great and disruptive a fact in 1919 and 1920. It is essential that we maintain our stabilization policy until the danger lessens.

BASIC CONSIDERATIONS

The most obvious consideration in the mind of a Minister of Finance in framing budget proposals is the financial requirement of the future. I have already pointed out that our financial requirements for the present fiscal year will be at a high level, though reduced from the level of the previous fiscal year and very substantially reduced from those which we anticipated in the budget of 1944.

In speaking on the resolution introducing the war expenditures and demobilization bill, I intimated that our requirements over the twelve months from November 1, for which funds are being borrowed from the public in the ninth victory loan, would probably be in the neighbourhood of $4,000 million. This will be still a large requirement but it will represent an accelerating decline in government expenditures from the time of the cessation of hostilities in Europe. I have already explained to the house the chief factors which retard the more rapid decline of expenditures —the lag in payments for supplies and services delivered in the past, the length of time covered by the payment of pay and allowances, deferred pay, war service gratuities and reestablishment credits for members of the armed services being demobilized, and the necessity of financing relief through our contributions to UNRRA and of extending export credits to allied countries who must feed their populations, replenish their stocks and reconstruct their industries, if, as we anticipate, they are to be valued customers and trusted friends in the future.

Looking further into the future, there are too many uncertainties in the currents of world events which affect Canadian trade and industry for me to venture a definite estimate of our financial requirements for the whole of the fiscal year 1946-47. The lag in payments for war supplies will be overcome and the payments cease. As the peak of demobilization is passed, demobilization costs will decline rapidly. The industries of allied countries will be rehabilitated and they will find in their own exports increasing sources from which to finance their import trade. Some of the remaining need may be met by the international monetary fund and the international bank. If reconstruction proceeds steadily in the world outside, we can anticipate further substantial reductions in expenditure in 1946-47.

Faced with the present fact of a very large deficit in a fiscal year of which five months had passed before hostilities had ended, and with the prospect of declining expenditures, it may well seem prudent to maintain our revenues, reduce our borrowings and extinguish our deficit as rapidly as possible. Such a policy is not without its attractions to a Minister of Finance but there are other considerations which claim attention.

The second consideration is economic. The government has adopted, as a major aim of government policy, the maintenance of a high and stable level of income and employment. Accordingly, it becomes a major consideration in budget policy. The present condition, as I see it, is that the outflow of war workers from war plants has been pretty well completed. The demobilization of the armed services is proceeding rapidly and will continue at a high level for some time. Civilian industry and employment are expanding rapidly. There are many projects in contemplation or under way for extended capacity and employment. Capital is plentiful. Consumers have unprecedented liquid savings, some substantial part of which they hope to spend as soon as their requirements can be met and met at reasonable cost. The urgent demand for housing needs no emphasis on my part. Deferred maintenance and other urgent and necessary works of railways, public utilities and governments are awaiting execution.

It is urgently necessary that the construction of houses proceed at the maximum possible rate. It is desirable that investment, which will lead to increased employment, should be made as quickly as supply conditions warrant. It is desirable that, as rapidly as finished goods can come on the market, consumers' needs should be met. It is not desirable that the government should through its expenditures compete with these demands for labour and materials, except for the most urgent needs.

During the war, there has been built up a system of taxation which is discouraging to investment, to enterprise and to consumer expenditures. In many of its aspects it was designed to be discouraging and restrictive to all activities not necessary to the prosecution of war. Some taxes were intended to restrict trade. Others have had the effect of increasing costs. I recognize that in the course of six years, war-time taxation has begun to blunt incentives and if continued indefinitely will paralyse the development of industry and trade.

This is a consideration of the greatest national importance. In such modifications as it is possible to make in taxation, it is imperative that we do what we can to reduce costs, restore incentives, encourage investment in the expansion of the employing-capacity of our industries whether in small or large enterprises and promote efficiency in production and export.

I probably do not need to elaborate on the third major consideration. We must maintain for some months yet the economic stabilization policy. It has been a sheet anchor during the war and is not to be cast off while there is still danger that what we have gained should be quickly lost. Recalling the course of events after the first world war, we must recognize the danger that the rush of consumers to buy, of traders to replenish their stocks and of producers to enlarge their capacity may easily result in an inflationary boom. In avoiding the rock on one side, we could be swallowed up in the whirlpool on the other. Our tax changes must be such as to contribute to employment and income, not merely to inflation and speculation.

There is another set of considerations of which there is not time to speak as fully as their importance warrants. Following the budget of 1941, the government entered into agreements with the provincial governments for the exclusive use of the corporation and personal income tax fields. By their terms, those agreements expire near the end of 1946. In August of this year the government laid before the representatives of the provincial governments comprehensive proposals for new agreements covering taxation and dominion-provincial relations generally. If they should be accepted, these proposals will, to an important degree, affect the continuing financial requirements of the government and the considerations under which it must frame its tax laws. If no agreement is reached, and the present agreements expire, the dominion is bound then to reduce the taxation of corporations by 10 per cent and to revise its personal income tax downward. In these circumstances, it would clearly not be prudent to take now hasty and irretrievable steps in the modification and reorganization of our tax structure.

It is in the light of these considerations that the proposals which I am about to make have been framed. We have fortunately reached the time when, despite our large requirements, we can contemplate some reduction in taxes. In doing so, we should bear in mind the paramount importance of assisting speedy reconversion, of restoring incentives, and of encouraging enlarged and efficient production and export on which our employment, income, and welfare depend. There are many and varied demands of the moment for tax reduction or elimination but it is necessary for all of us to think not of the moment but of the future, and of the interests of the nation as a whole.

THE WAR EXCHANGE TAX

A war exchange tax of ten per cent on all imports from non-empire countries was imposed in 1940. I am proposing that this tax should now be discontinued.

There were sound reasons for imposing this tax but the reasons for removing it have now become compelling. Though the tax affects many consumer items, its major impact is on producers. We are in a period when production, both primary and secondary, is changing over from a war market to a non-war market both at home and abroad. Export markets will become increasingly competitive. Primary producers must to a considerable extent reequip themselves. Industry must be extensively modernized. An important part of the equipment and supplies for production will be imported and it would be shortsighted policy not to assist producers in reaching the lowest possible cost of expansion, modernization and operation. It is undesirable that this tax should be capitalized into the costs of the future.

The removal of the tax will have some immediate benefit for the consumer particularly in increasing the availability of supplies. Its ultimate benefit to the consumer will be very great. The removal will ease the problem of readjusting the somewhat higher prices of our neighbours to the price level which we have maintained in this country.

The imposition of this tax was fully justified by the circumstances of war and by the acute scarcity of United States dollars. It was recognized, however, that the tax was discriminatory and could not be justified under conditions of normal trade. I am glad that under present circumstances it is both desirable and possible to remove the tax and it will be discontinued as from midnight to-night.

It has been estimated that this tax would yield us in the present fiscal year $75 million. This sum, however, is subject to very substantial refunds on purchases for other governments, and it is swollen by the extensive purchase of war supplies in the United States. Though it is difficult to make an estimate, it seems probable that the loss of revenue will be about $60 million in a full year and not more than $30 million in the current fiscal year.

THE SALES TAX

I have been impressed also with the extent to which the sales tax is having a discouraging effect on the rapid and efficient modernization of our productive equipment. Whereas the war exchange tax affected imported equipment only, the sales tax applies to imports and home production alike. It is highly important in this period when the transition is being made from war to civilian production and when extensive investments in plant, machinery, tools and dies are necessarily being made, and when primary producers are replacing and improving their equipment, that we should wherever possible remove taxes which result in higher costs. Particularly we should remove those taxes which, imposed far back in the production process, increase costs out of proportion to the contribution which they make to the revenue. It is especially important that if such reductions in taxation are to be made, they should be made now so that industries should not face the future with inflated costs of construction and equipment. It is of importance further that in the expansion of our peace-time exports and in the entry of the new industries into the export field this handicap to competition in world markets should be removed.

It is proposed to exempt from sales tax machinery and apparatus (not including office equipment or motor vehicles) which, in the opinion of the Minister of National Revenue, are to be used directly in the manufacture or production of goods. This exemption from sales tax will be effective as from midnight to-night.

The house will note that the sales tax is being removed from machinery and apparatus used in the manufacture or production of goods but not those used in distribution or in the rendering of services. The principle which we are endeavouring to follow is to remove the sales tax from the costs of those industries which bear sales tax on their products, including also those whose products have been deliberately exempted as in the case of food products. The sales tax will be imposed still on machinery and apparatus used in distribution and in service industries on which no sales tax is levied.

Nearly all the machinery used by primary producers is already specifically exempt from sales tax but the provision which is now being proposed will extend the exemption somewhat further.

It is estimated that in a full year this exemption from sales tax will result in a loss of revenue of about $30 million, of which about half will be suffered in the current fiscal year.

There are some amendments to the Special War Revenue Act which are of less importance and I shall do no more than mention them. It is proposed to simplify the present unsatisfactory taxation on furs. At present there is a twenty-five per cent excise on furs, levied at the point of dressing and dyeing, and no sales tax on furs as such. The sales tax is, however, imposed on fur-trimmed garments. It is now proposed to reduce the excise tax to ten per cent and to subject all garments and articles of fur as well as fur-trimmed garments to the eight per cent sales tax. The main result of this change will be simplification and uniformity of tax treatment but there will also be some slight reduction in the tax on furs generally and a more substantial reduction in the tax on furs used in the trimming of cloth garments. The time of reclassifying manufacturers of fur garments as manufacturers for sales tax purposes will be announced by the Minister of National Revenue after a survey of the inventory position.

At the present time Canadian tourists returning from the United States are given an exemption on purchases up to $100 which they bring in with them. Under the present law the retail excise tax is levied on articles included in such purchases. The tax is difficult to collect and it is felt that its collection is an unnecessary reduction of the tourist privilege which has been reciprocally extended between ourselves and the United States. It is therefore proposed to exempt these purchases from the retail excise tax.

The considerations, which we have had in mind in framing the budget proposals, indicate that tax reductions should be concentrated on the most vital points and should not extend to the taxation of consumer commodities in general. There are other and more appropriate ways of stimulating consumer buying to the extent that it requires stimulation beyond its present high level. There will be later periods when reduction of taxes on the classes of consumer commodities subject to tax will be more necessary and will have a more beneficial effect than now.

THE EXCESS PROFITS TAX

The Excess Profits Tax Act is a war measure which has commanded overwhelming support as an important and necessary instrument of war finance. Unmodified, it seriously weakens the stimulus toward the investment of capital and the efficient operation of enterprises. In this period of reconstruction it is becoming a barrier to expanding employment.

I have therefore three major modifications to propose. The first has to do with sole proprietorships and partnerships. The incomes of these firms are also subject to the personal income tax and the excess profits tax has perhaps been particularly severe on them, particularly on some smaller firms which have experienced no great increase in profits during the war. I am conscious of the fact that in the United States the excess profits tax has never been imposed on such firms. It is now proposed to remove from all sole proprietorships and partnerships the 15 per cent rate on total profits but to leave them for the time being subject to the excess rate. In the other proposals which I have to make there will also be additional relief to this class of firms.

The second proposal is concerned with small firms whether incorporated or not. It has been argued that such small firms have suffered more than most by reason of the fact that they could be reasonably expected to grow proportionately more than the larger firms. Many of these firms have only the minimum rate of standard profits of $5,000. Many have expanded during the war and it is represented that they can be a very great factor in providing employment in the postwar period. The position of such firms has been substantially relieved both in the United Kingdom and in the United States. It is accordingly proposed to increase the standard profits of all firms by half the difference between their present standard profits and $25,000. This will have the effect of raising the minimum standard profits from $5,000 to $15,000. Further, in the case of a firm whose present standard is $13,000, its new standard will be $19,000. Firms which have a standard profit of $25,000 or more will not be affected by this proposal.

Under this and previous recommendations, upwards of 12,000 businesses will be released entirely from excess profits and many others will experience some diminution of tax.

The government has reached the conclusion that in a period when we wish to encourage the fullest expansion of employment and income the 100 per cent rate under the Excess Profits Tax Act cannot reasonably be maintained. Now that we are moving from war to peace its undesirable effects become greater. The Excess Profits Tax Act has been in operation from the beginning of the war and the standard profits established on the basis of average profits before the war are becoming more and more out of date. There is widespread evidence that incentive is being stifled and that ordinary prudence in the making of business expenditures has been seriously weakened.

As an interim step towards the ultimate abolition of the excess profits tax, it is proposed (a) to abolish the twenty per cent refundable portion of the excess profits tax; and (b) to reduce the rate on excess profits to sixty per cent. The simple effect of the proposed legislation will be that all corporate profits will bear a rate of forty per cent, and corporate profits in excess of 116⅔ per cent of standard profits will bear an additional tax of twenty per cent. In the case of sole proprietorships and partnerships, the rate on profits in excess of approximately 117 per cent of standard will be sixty per cent. It is proposed that these changes in the Excess Profits Tax Act should be effective as from January 1, 1946.

It is estimated that as a result of these changes the government will lose its source of borrowing $72 million as the refundable portion of the excess profits tax; that the reduction of the excess rate to sixty per cent will result in a loss of revenue of $72 million in a full year; that the raising of the standard profits for small firms and the exemption of unincorporated firms from the fifteen per cent rate will cost $22 million.

Confronted as we are by continuing war expenditures and with business profits still extremely buoyant as a result of high government spending and rising private expenditures, I have reached the conclusion that it is not in the interest of the country and of an orderly and rapid transition to a peace-time economy to remove the excess profits tax entirely at this time. In stating this conclusion, I do not in any way qualify the previous assurances that have been given that the excess profits tax will not be retained indefinitely.

Nor is it possible in my view at present to modify the 40 per cent rate on corporations. If the present tax agreements with the provinces lapse without being replaced by new agreements, the government is bound to reduce the corporation rate by ten per cent. If new agreements are reached the rate can be reduced promptly but to reduce the rate now by any substantial percentage and be bound to reduce it by ten per cent more at the end of 1946, would, in my view, establish too rigid a programme of tax reduction. There are, I have no doubt, substantial arguments for some reduction but the considerations stated have appeared to the government conclusive. I am bound to add further that only a very small proportion of the complaints received by the Department of Finance concerning business taxation have referred to the 40 per cent rate.

There are certain less important changes which it is proposed to make in the Excess Profits Tax Act. Now that the 100 per cent rate is being reduced to 60 per cent, it is proposed to remove the limitation which has hitherto been imposed by administrative regulation on expenditures in advertising. Its removal will of course date as from January 1, 1946.

There has been a provision of some importance to the mining industry under which the profits of new base metal or strategic mineral mines have been exempted from excess profits tax for the first three years of their operation. This exemption is due to expire on December 31, 1945. It is proposed now to extend it and to include thereunder the profits from gold mines and from certain industrial-mineral mines.

It is proposed also to extend for another year the tax credits allowed to mining and oil companies for off-property expenditures on exploration and in the case of oil companies for expenditures on deep-test wells.

In respect of forest industries, it is proposed to allow by administrative regulation the amortization of any unamortized portion of capital expenditures where, as a result of fire, insects, disease, or storm, operations in a particular area are abandoned.

In the budget of last year provision was made to allow the writing back to the profits of a war year of one-half the maintenance and repair expenditure incurred in a designated post-war year. In view of the continuing shortage of certain materials and the large amount of construction work to be done, the period has not as yet been designated but continuing consideration will be given to the matter.

THE PERSONAL INCOME TAX

I turn now to the personal income tax from which currently about one-third of our tax revenue is derived. I think there is no doubt that the personal income tax in the post-war period will continue to occupy a major place in our taxation structure. The extent and nature of the requirements of the government will necessitate dependence on the personal income tax as a major element in the taxation system. It should be, however, an income tax carefully revised to ensure its efficiency and its suitability to the post-war requirements.

As I have recalled to the house earlier, the present personal income tax was built up to its war-time level and system of collection at the source between 1939 and 1943. Many devices, including a somewhat elaborate system of refundable taxes, were adopted in order to make severe taxation tolerable in the varying circumstances of different groups. As a general rule, very high taxation must be complicated unless parliament is willing to be ruthless in the face of the hardship of individual situations. I would go further and state that the longer very high taxation remains in force, the more complicated it will become through acceding to demands for special alleviation. In 1944, provision for the refundable portion of our personal income tax was rescinded though its calculation still enters into the calculation of the tax payable. This contributes what is now an unnecessary complication to the tax.

There are clear and obvious reasons for as early a reorganization and simplification of this tax as is practicable. These reasons have been very actively in mind. As I studied the matter, however, I became aware of other important considerations. A thorough and workmanlike overhaul of the whole personal income tax structure can be undertaken most effectively in the light of a realistic post-war level of taxation. In presenting the budget a few weeks after the cessation of hostilities, a budget for a fiscal year which is already half gone, the Minister of Finance cannot, with assurance, project his estimates so far ahead. The government has made certain financial and other proposals to the provinces. If they are accepted, the government will bring forward legislation for extended social security measures involving a contribution, which, whatever its form, will have an important bearing on the equitable distribution of income tax rates. If the proposals are rejected by the provinces and no general agreement is reached, the dominion is obligated to make some reduction in its tax rates and will have to consider what responsibilities it can assume, in those circumstances, in respect to any or all of the proposals.

Any reorganization of the personal income tax must be so carefully and thoroughly done that it will not have to be re-done in the early future. I have somewhat reluctantly reached the conclusion that, at this early date and in view of the contingencies involved in our discussions with the provinces, it is wise not to attempt to combine an immediate revision of the whole personal income tax structure with reduction of the tax.

My colleague, the Minister of National Revenue, has found, however, that it is possible, even though the law is not simplified, to introduce administratively a great simplification for the taxpayer himself. When the returns for 1945 are due it will be found that a greatly simplified system of calculation has been introduced. This is not a matter of legislation but more specific information can be given the house on a convenient occasion.

The considerations which are important in contemplating some reduction of the personal income tax are those which I emphasized earlier. It is not possible, at this early date and with high continuing commitments, for a responsible Minister of Finance to propose lavish reductions in any major tax. He has to reckon with a future in which our commitments vis-a-vis the provinces are unknown. He has to plan for reasonable contraction of the budgetary deficit. I am impressed, however, with the great and harmful effect which our present high personal income tax is having in discouraging work and initiative in all groups at a time when we need a rapid expansion of employment and a willing mobility of labour. I laid great stress on these harmful effects in 1944 when the refundable portion of the tax affecting mainly the lower-income groups was removed. Conversely, I am convinced that a reduction in the personal income tax can make a major contribution to the stimulation of initiative and employment.

REDUCTION IN TAX PAYABLE

I think it wise therefore to recommend an interim measure of prompt and unquestionable relief. It is proposed that the tax levied shall be abated by 16 per cent dating from October 1, 1945. This abatement of 16 per cent will be applied to the current tax deductions at the source just as soon as the necessary change can be made. Since the change is applicable from October 1, the abatement on the whole tax liability for 1945 will amount to 4 per cent. For a full year, the abatement will be 16 per cent of the tax liability.

This is an interim measure to be applied immediately and to continue until it is possible to combine further abatement with a thorough overhaul of the whole rate structure of the personal income tax. I would hope that new arrangements with the provinces and further progress in the transition to peace-time conditions would have so clarified the outlook that it would be possible in the budget of 1946 to propose such a comprehensive revision.

ADJUSTMENT FOR FAMILY ALLOWANCES

In addition to the major change which I have just explained, there are a number of further important amendments being proposed. On the coming in force of the Family Allowances Act it was necessary, to implement the provision of that act, that steps should be taken under the Income War Tax Act to adjust the deduction from income tax on account of dependent children in order to avoid duplication where family allowances were being paid in respect of such children. A table was issued at that time showing the adjustment of tax deductions at the source in accordance with this principle. For the sake of simplicity, the table was in the form of a recapture of a stated percentage of the family allowance according to the taxable income of the taxpayer. Its effect, however, was to reduce or eliminate the tax credit allowed for children dependent on the taxpayer and on behalf of whom family allowances had been received during the year. For the sake of simplicity also, the adjustment was approximate, care being exercised that no one was penalized and that on the whole taxable persons in the lower income groups retained some net gain as the combined result of family allowances and tax credits under the Income Tax Act. In view of the proposed tax abatement, it is necessary to provide a new scale of adjustments for 1946.

In the budget of last year I announced that there were certain complicated tax problems which I felt required more concentrated attention and more public consideration than the Department of Finance was able to give to them, and that I should recommend the appointment of two special commissions to report on these problems. These commissions were appointed, have conducted extensive inquiries and both of them have now reported.

ANNUITIES AND FAMILY CORPORATIONS

The report of the commission on the taxation of annuities and family corporations under the chairmanship of Mr. Justice Ives presented its report last spring and the report has been printed and made public. I have no doubt that members of the house are familiar with its recommendations. The government is prepared to accept all the main recommendations of this commission and I am proposing that, in so far as legislation is required, the necessary amendments should be introduced. Without entering into the arguments by which the commission supported its recommendations, I will state very briefly what the government's proposals are. It is proposed that in respect of contractual annuities, the capital element in such annuities should not be taxed. It is recommended that annual or periodic payments under wills or trusts should be subject to income tax only to the extent that they are paid out of income. In respect of pensions, the resolutions will provide for the taxation of all pensions except that, where an employee has not in the past been entitled to a deduction from taxable income in respect of his contributions, an appropriate portion of the pension shall be exempt from tax when received by him or by his dependents. Earnings in the hands of trustees of pension funds are to be made exempt from income tax. The commission recommended that the present limits placed on deductions from income in respect of employers' and employees' contributions to an approved pension fund or plan should be removed. It is fair enough to exempt reasonable contributions to moderate pensions from tax and to tax the pensions as paid. There may, I think, however, be some danger in giving unlimited freedom in respect of really large contributions to pensions which may represent a major form of investment. I have noted that one of the particular concerns of the commission was that present allowances were too low in view of the fact, which the commission reported, that under present low rates of interest it might require as high as a nine per cent contribution from the employer and an equal amount from the employee to provide a pension equal to half the employee's salary. So as not to grant an undue amount of freedom before bringing all pension funds under continuing supervision, I am recommending that the deduction to be allowed to an employee annually in respect of his current contributions to a pension fund or to an employer in respect of any employee should not exceed $900. Further, it is proposed to take steps to implement the recommendation of the commission that pension funds should be subject not only to the approval of the tax authorities but to continuing supervision.

The second main subject on which the Ives commission reported was concerned with the distribution of surpluses which had been accumulated by private closely-held companies from 1917 to 1939. The problem before the commission was to determine what, if any, abatement of income tax should be made on the distribution of such surpluses in the event of the death of a principal shareholder and for the payment of succession duties. In respect of private closely-held companies, the government proposes to implement the main recommendation of the commission on this point. It is proposed that surplus accumulated from 1917 to 1939 by such companies should be free from tax in the hands of the shareholders if the company pays a tax thereon as provided in the schedule recommended by the commission and if the company elects before December 31, 1947, to pay such tax.

The commission made a further recommendation to the effect that on the reorganization, winding-up or discontinuance of business of any private company, the undistributed income deemed to be a payment of dividend under the present law should be reduced by an amount equal to twenty per cent of the income after tax earned in 1940 and subsequent years. This is a very drastic modification of existing practice and of the basic view of income established in our tax laws. This particular recommendation did not carry the unanimous judgment of the commissioners and it is the government's view that it ought not to be implemented immediately but should be subjected to further study.

TAXATION OF COOPERATIVES

The second royal commission was directed to report on the taxation of cooperatives. Its report has been received only very recently and it is now being printed for tabling in the house and distribution. There has not as yet been time to give full study to the report but, if it is possible to do so, I shall introduce in the committee on ways and means further resolutions for such changes in taxation as seem desirable after consideration of the recommendations of this commission.

Several less important amendments which are being proposed in respect of personal income tax I shall mention only briefly. It is proposed to drop the requirement by which those disbursing dividends, registered interest and royalties are required to deduct at the source seven per cent on behalf of the taxpayer. This requirement is of little value in obtaining current payment of taxes which the taxpayer himself is required to pay in instalments. The requirement that the disbursers of these payments must report the amount of the payments to the inspector of income tax will of course be retained and it is this which is the important provision as far as ensuring the reporting of income is concerned. The elimination of the seven per cent deduction at the source will save a very considerable amount of clerical work and some confusion to small taxpayers.

MEDICAL EXPENSES

The house will recall that we have had in the income tax law for some time an allowance on account of unusual medical expenses which was introduced in order to provide some alleviation under circumstances which frequently gave rise to hardship. The alleviation is one, I believe, which has been much appreciated. It is proposed to enlarge the provision somewhat to allow in the event of the death of the taxpayer the expenses paid by the estate of the deceased to qualify for the allowance and to allow the deduction from taxable income to be taken in the year prior to the death of the deceased.

ARMED FORCES

There has been a special exemption in the Income Tax Act for those members of the armed forces whose duties were performed afloat or in aircraft, and a similar exemption was allowed to civilians employed in flying by the Royal Air Force Transport Command. Now that active hostilities have ceased, the occasion for the exemption has disappeared and the exemption is being withdrawn.

ALBERTA BONDS

Last spring in connection with plans which were being worked out for the repayment of Alberta bonds and in an attempt to forestall any speculative gain on the part of those who might trade in Alberta bonds, I undertook to recommend a special tax of 100 per cent on profits made through the purchase of such bonds. I shall therefore recommend the imposition of a 100 per cent tax on any profits made on Alberta bonds purchased between January 31, 1945, and August 7, 1945. By the latter date the full terms of the offer of the Alberta government had been made known and time had been given for full publicity.

I have received strong representations in favour of a change in the law which would allow the acceptance of the average income over a period of years as the taxable income of farmers and fishermen whose incomes are subject to great variability on account of weather as well as of markets. I have been impressed with the reasonableness of the requests, though hitherto the proposals made have involved collecting a tax from farmers and fishermen in bad years in which they might actually have had a loss. I am hopeful, however, that a solution can be found to the problem and I am prepared to give the most sympathetic consideration to the inclusion of a provision of this sort in a revised income tax law.

There have been a considerable number of inquiries as to when the refundable portion of the personal income tax is to be returned to the taxpayer. It is provided in the act that in the case of taxes paid on income for the 1942 taxation period, repayment shall be made not later than the end of the second fiscal period commencing after the cessation of hostilities. That means that refunds on 1942 taxes must be paid not later than March 31, 1948. Refundable taxes for 1943 must be repaid not later than March 31, 1949, and those for the six months of 1944 not later than March 31, 1950. These are the latest dates at which the refunds can be made. It is open to the governor in council to make refunds at earlier dates but there is no provision for the return of these funds selectively to some individuals and not to others. The present time does not appear to the government to be a period in which such a general refunding of these sums is desirable owing to the strong inflationary pressures which still exist. Under changed conditions, the government would give consideration to the payment of these refunds without necessarily waiting till the dates specified.

SUCCESSION DUTIES

There are two simple amendments to the Succession Duty Act which I shall propose. In accordance with the recommendation of the Ives commission, it will be recommended that no succession duty shall be levied on the value of any pension receivable as taxable income with appropriate apportionment in the event of a pension being partly taxable and partly non-taxable. There has not hitherto been in our Succession Duty Act any provision for alleviation of succession duties in respect of so-called quick successions. Having examined the legislation in the United Kingdom and the United States on this matter, I am recommending provision for a percentage reduction in succession duties where the same property passes again as a result of a second death within a period of five years from the first death on which the property became subject to succession duties.

There is quite a number of amendments to the Customs Tariff Act but most of them are matters of redefinition and administrative convenience rather than of major importance. I shall defer my explanations of them until the resolutions are before the house.

CONCLUSION

This completes the proposals which are being put forward in this budget. The expected effects on the revenue are summarized in a table which I shall place on *Hansard:*

Loss of Revenue Resulting from Budget Proposals

(millions of dollars)

	Full year	Current fiscal year
War exchange tax......	60	30
Sales tax...............	30	15
Excess profits tax......	95	10
Personal income tax....	115	45
	300	100
Loss of refundable portion of excess profits tax	72	7

On a full year the loss of revenue from these interim tax reductions will amount to approximately $300 million. In the current fiscal year, the reduction in the excess profits tax which dates from January 1 next will have only nominal effect as even firms operating on a calendar year basis will not have remitted taxes on the new schedule before March 31. The loss of revenue from the personal income tax will be somewhat less than half of the annual loss since some payments on 1945 income are not due until April 30. The estimated loss of revenue in 1945-46 is therefore $100 million. This will reduce our estimated net tax revenues from $2,265 million to $2,165 million and increase the probable deficit from $2,150 million to $2,250 million.

In recommending these interim tax reductions, my major concern has not been the financial results of the current fiscal year. I have been concerned with making such reductions as would speed up the transition to peace-time conditions and contribute promptly to the expansion of enterprise and employment. I have been willing therefore to look beyond the end of this fiscal year and, despite uncertainty as to the tax fields which we can occupy exclusively in the future, recommend these immediate steps which will have the effect of maintaining the incomes from which all government revenues are derived.

In a period when the transition to peacetime employment is proceeding rapidly and government expenditures are being replaced by the expenditures of the public on investment and consumption, the right course seems to me to encourage that shift by tax reduction and endeavour in the months ahead to reduce our war expenditure as rapidly as possible.

There is another word to be said. By reducing taxes, we are leaving a somewhat larger deficit than otherwise to be covered by borrowing. As I have said before, our total requirements over the next twelve months are likely to be as much as $4,000 million. With these tax reductions, we cannot expect to cover more than about $2,000 million by revenues. A victory loan campaign is being launched this month to obtain from the public the funds necessary to finance most of the remainder. No other victory loan will be offered in the next twelve months. The public will be asked to subscribe their accumulated savings and to pledge their savings over the next twelve months in the purchase of bonds. I cannot emphasize too strongly the continuing need for savings. There will be over the months ahead some legitimate and increasing expenditure of war-time savings by individuals in acquiring houses and in making some of the purchases deferred for the war. As one who has had some responsibility for encouraging war-time savings, I am anxious that they should meet the real needs of the individual whether those be improved housing, better standards of living or better provision for old age. I do not want to see them dissipated as were savings after the first world war in unnecessary spending at inflated prices. There is still great national need for systematic saving and prudent spending. Hostilities have ended but men have still to be brought home and reintroduced to civil employment. Our world trade must be reestablished and our customers temporarily financed. The appeal of the government for this victory loan is still urgent and it is a national appeal.

I referred earlier in this speech to the road which we have travelled in financial and economic policy during the war. The recommendations of this Budget are that we now begin to direct our course toward the needs and requirements of a peaceful future. We are making good progress in the transition. There are difficulties and there will be setbacks, but they are proving less rather than more than we anticipated. If we move in good order and with the interest of the nation as a whole at heart, we can carry the achievements of the war into the achievements of peace in the months and years to come.

RESOLUTIONS

Income War Tax Act

Resolved that it is expedient to amend the Income War Tax Act, and to provide

1. That for 1945 and subsequent taxation years the capital element in contractual annuities be exempt from tax;

2. That for 1945 and subsequent taxation years annual or periodic payments received under the provisions of a will or trust be considered taxable income to the extent only that they are paid or deemed to be paid out of the income of the estate or trust;

3. That the income of all approved superannuation or pension funds or plans in 1946 and subsequent taxation years be exempt from tax in the hands of the trustees;

4. That all payments of superannuation or pension to former employees or their dependents in 1946 or subsequent taxation years be taxable income, provided that, where a former employee has not in the past been entitled to a deduction from income in respect of his contribution to an approved fund or plan, only a proportionate part shall be taxable;

5. That the limitations on deductions for contributions in 1946 or subsequent taxation years by an employer or an employee to a superannuation or pension fund or plan be increased to $900, and that the percentage limitation in respect of the employer's contribution be removed;

6. That the exemptions and deductions for 1946 and subsequent taxation years in respect of a superannuation or pension fund or plan be conditional upon the continuing approval of the fund or plan by the Minister of National Revenue;

7. That a payment on or after October 13, 1945, to an employee in respect of loss of office be deemed to be income of such employee over a period of five years;

8. That, in lieu of the taxes otherwise payable by shareholders of a private closely-held company in respect of earned surplus accumulated by the company from the beginning of its 1917 fiscal period to the end of its 1939 fiscal period, the company be allowed to elect to pay a tax equal to the aggregate of the taxes calculated in respect of the allocable portion of each shareholder determined in accordance with the following table:

On the first $25,000, or any portion thereof, 15 per cent,

$3,750 on an allocable portion of $25,000 and 18 per cent on the amount by which the portion exceeds $25,000 and does not exceed $50,000,

$8,250 on an allocable portion of $50,000 and 21 per cent on the amount by which the portion exceeds $50,000 and does not exceed $100,000,

$18,750 on an allocable portion of $100,000 and 24 per cent on the amount by which the portion exceeds $100,000 and does not exceed $200,000,

$42,750 on an allocable portion of $200,000 and 27 per cent on the amount by which the portion exceeds $200,000 and does not exceed $300,000,

$69,750 on an allocable portion of $300,000 and 30 per cent on the amount by which the portion exceeds $300,000 and does not exceed $400,000,

$99,750 on an allocable portion of $400,000 and 33 per cent on the amount by which the portion exceeds $400,000;

9. That the provision contemplated by Resolution 8 be applicable only if the company elect on or before December 31, 1947, and that the tax be payable in four annual instalments, the first one being due on December 31, 1947, with interest at 4 per centum per annum on each instalment from December 31, 1946, until due and thereafter until paid at 7 per centum per annum;

10. That for 1944 and subsequent taxation years the provision for deductions of unusual medical expenses be extended in the event of the death of the taxpayer either in the taxation year or subsequently to include expenses incurred and paid either by him or by his estate in a 12-month period commencing in the taxation year;

11. That the requirement to deduct 7 per cent tax at source on payment of interest, dividends or royalties be discontinued after December 31, 1945;

12. That for 1946 and subsequent taxation years the exemption of the service pay and allowances of members of the Canadian naval,