One cannot help but wonder why, before we allowed our returned men to suffer degradation, we did not use these powers. I believe the fact that we did not do so constitutes a solemn warning to this generation that unless something is done we will continue to ignore these possibilities. I must say that I am really discouraged by reason of the fact that the Prime Minister, the hon. member for St. Lawrence-St. George, the hon. member for Essex East and the hon. member for Cariboo, who were the government representatives and advocates in the discussion which preceded the introduction of this bill and in the discussion of the bill itself, referred to nothing but taxation and debt. In a vague sort of way the hon. member for Cariboo reminded us what the banks did when they had to market a crop of wheat, but beyond that he did not go, nor did the Prime Minister. What does it mean? It means that the people of Canada are left out on a limb at the present time, with no idea whatever of how the government proposes to do all the things it envisages in this act. If the government has no financial device for financing the projects involved in this act, beyond borrowing and taxation, all I can say is that this whole measure is nothing in the world but another means of deceiving the Canadian people.

As an indication of the possibilities of the use of debt-free money, state-created, I should like to read two or three passages from the report of the Bank of Canada dated February 10, 1944, wherein the governor of the bank, or whoever wrote the report, suggests the tremendous productive capacity of Canada in the post-war world. I have already indicated that the amount of money a state can create debt-free depends upon the goods the state can produce and consume. If, then, it can be shown that we are capable of producing an astounding amount of goods, then the possibility of the use of this debt-free money, which is indicated in the three excerpts which I have read, becomes very encouraging. Now I read from page 11 of the report of the Bank of Canada:

> By the end of 1943 the gainfully occupied population had risen to approximately 5,100,000 but about 1,900,000 of these were engaged in the armed forces, in supplying the weapons of war, or in producing the food required for special wartime exports. The number available to meet civilian needs had therefore fallen to about 3,200,000, but at the same time the average standard of living had risen materially and was probably higher than it had ever been.

Mr. MACKENZIE KING: Would my hon. friend permit me to interrupt, since it is just a minute to six o'clock? I should like to move that the committee rise, report progress and ask leave to sit again this day. I have to make that motion now in order that the committee may continue after the Minister of Finance has made his statement on the budget.

Mr. BLACKMORE: The Prime Minister will not mind if I read one more sentence?

Mr. MACKENZIE KING: Not if my hon. friend is going to stop then for good.

Mr. BLACKMORE: Yes, I am going to stop then, because I understand that at eight o'clock we are going on with the budget.

> This increased output of consumption goods by a smaller working force can be accounted for in part by longer hours of work, favourable crop conditions and the abnormally small number now employed in private capital development and maintenance work. Another important factor, however, has been the improvement in production techniques worked out under the stress of war.

In the next paragraph the governor of the bank goes on to point out that there will be an enormous increase in the goods produced in this country, which would indicate that if only we will be realistic in the matter of money and use the power which is implied in the three quotations I have read, we will not need to be anxious at all about implementing this measure for the rehabilitation and reconstruction of Canada.

Progress reported.

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 committe of ways and means.

He said: Mr. Speaker in laying before the house the government's proposals for meeting the financial requirements of the present fiscal year, it is proper that I should give some account of the economic conditions and the financial results of the fiscal year which closed on March 31. In doing so, I refer the house to the white paper, which I shall table before sitting down, for the detailed record with which I do not wish to burden the house now.

I.

ECONOMIC AND FINANCIAL REVIEW

The whole of the fiscal year was marked by high and sustained levels of production and employment. The employment index on April 1, 1944, was at almost exactly the same level as on April 1, 1943, despite the withdrawals to the armed forces. While there were marked changes in individual industries, the over-all variation was only in the amount of the unfilled demand for labour and in the incidence of shortages. This is a condition which we may expect to persist as the European military operations gain in scope and speed. The net demand for labour, as registered at the national selective service offices, has already mounted far above the levels reached in the spring.

Roughly estimated, national income in 1943-44 was something like twelve per cent higher than in the preceding fiscal year. Aside from the pay and allowances of the armed forces, much the largest increase relatively was in farm incomes. Salaries and wages were up more moderately while investors' and other enterprisers' income experienced still smaller increases. In contrast, rising costs were bringing about a decrease in corporate profits.

Consumer spending also increased through the year, and was in part reflected in an increase in retail sales which was most marked in country stores. It was reflected also in increased revenue from some of our luxury and quasi-luxury taxes.

Prices rose, and the cost of living index moved up one and one-half points during the year though on April 1 it had fallen somewhat from the higher levels established last fall. There are other occasions for discussing at length the government's policy of controlling prices, wages and salaries. However, I believe that that policy in its broad principles has the support of all parties. The need for it is evident on every side. It is not without its irritations and disadvantages but its beneficial results are beyond dispute. It is only necessary to remind the house that the government reaffirmed its policy in November last and again in March, and that the successful maintenance of that policy, through the period of active military operations in Europe and in the readjustment which will follow, will be even more important to this country than it has been in the past and that it will be at least as difficult.

GOVERNMENT ACCOUNTS AND FINANCING, 1943-44

The financial results of the past year reflect these economic changes as well as the unfolding development of the war program and the application of the revenue measures. Though the public accounts for the year are not yet made up, I am able at this date to give close estimates of the final figures.

REVENUES

Total revenues for the year, including $155 million dollars of refundable taxes, were $2,856 million, an increase of $537 million, or twenty-three per cent over the revenues of 1942-43. Of this increase, total tax revenues at $2,592 million supplied $455 million.

The receipts from the personal income tax were $813 million, $279 million or fifty-two per cent above those for the preceding year. Of these receipts, an estimated $115 million was refundable. The large increase arose from the application of the higher rates of the 1942 amendments to the full fiscal year 1943-44, and the substantial increase in taxable incomes themselves. Revenue from the corporation tax amounted to $311 million, about ten per cent less than in the previous year in which the yield had been abnormally large because the time of payment had been moved forward. The excess profits tax yielded $469 million, slightly more than in 1942-43, reflecting the application of the higher rates of the 1942 budget for a full fiscal year. Succession duties at $15 million were also slightly higher.

Revenues from indirect taxes, with the exception of excise duties, in the yield of which there was little change, were very substantially higher. Customs duties produced $168 million, an increase of $49 million. The net revenues from the sales tax were $305 million, $72 million more than the previous year. The war exchange tax yielded $119 million, or $24 million increase. These are substantial increases. It should be noted, however, that the government itself, as a payer of taxes on its war and ordinary purchases, contributed a considerable part of the increases.

Excise taxes, other than the sales tax and war exchange tax, yielded $215 million, an increase of $54 million. Taxes on cigars, cigarettes and tobacco provided more than half of this increase, while those on beverages, candy and chewing gum, transportation and communication and the proceeds of sales of excise stamps which reflect the retail taxes, contributed substantially toward it.

Among ordinary non-tax revenues, which totalled $140 million, the post office, following last year's increase in rates, produced a revenue of $61 million, an increase of $12 million. The return on investments was $52 million, $11 million more than in the previous year. Among special receipts, the income surplus of the

Canadian National Railways amounted to nearly $36 million, or almost $11 million over the figure for the previous year.

EXPENDITURES

Ordinary expenditures were $630 million. The interest on the public debt was $243 million, and, of the total increase in ordinary expenditure of $69 million, it accounted for $54 million. To the remaining increase of $15 million, the cost of loan flotations and amortization contributed $5 million; compensation to the provinces in respect of the guarantee of revenues from gasoline taxes, $4 million; unemployment insurance $1 million, increased expenses of the Department of National Revenue $3 million; and the post office $4 million.

Capital expenditures, at $3 million, were slightly reduced. Special expenditures amounted to $37 million, and were $6 million higher than in 1942-43. Higher payments under the Prairie Farm Assistance Act and the wheat acreage reduction plan accounted for the whole of the increase. Government-owned enterprises required somewhat more than $1 million, about the same as last year. Other charges amounted to $64 million and were slightly lower than in the previous year.

Under the war appropriation acts, including Mutual Aid, expenditures were $4,625 million, an increase of $901 million over war expenditures for 1942-43.

Total expenditures for the year thus were $5,360 million, an increase of $973 million over those of the previous year, but slightly less than the amount estimated in the budget of last year. Total revenues for the year exclusive of refundable taxes were $2,701 million. Deducting these, we arrive at the over-all budgetary deficit of $2,659 million—the amount by which the net debt was increased during the year. The proportion of expenditures met out of current revenue, slightly more than fifty per cent, is somewhat better, it will be noted, than I predicted last year.

FINANCIAL REQUIREMENTS AND BORROWING

The budgetary deficit is the amount by which the net debt increased during the year. It is not the cash deficiency, that is the amount which we had to borrow to meet our cash requirements. As contrasted with total expenditures of $5,360 million, our total requirements for cash in Canada were $5,841 million. The difference between this sum and the amount of our expenditures, is made up of the amounts required to make recoverable advances in connection with war purchases, to pay off indebtedness abroad, and to purchase securities, foreign exchange and other active assets.

Our first source of cash to meet these requirements was our revenues which produced $2,662 million in cash. The refundable portion of the income and excess profits taxes provided $155 million, net receipts in trust, insurance and superannuation accounts contributed $50 million, and miscellaneous receipts and credits resulting from the working of various accounts, $39 million. The remainder, $2,935 million, is the amount of the cash deficiency.

It is this cash deficiency, not the budgetary deficit, which measures the amount of our borrowing requirements, and it is often much the larger amount. In the past year, the cash deficiency was only ten per cent higher than the budgetary deficit, but in three of five of the war years, when we were greatly extending our war programme, repatriating securities and accumulating sterling, it was more than double the budgetary deficit. Over the five years as a whole, it was nearly fifty per cent greater than the budgetary deficit. I lay some emphasis on this distinction because not only has it been of great importance in the past, but it is likely to be very significant in the future.

To a small extent, the cash deficiency was met by drawing down our cash balances by $42 million. The total cash borrowing for the year, $2,962 million, met the remainder, and in addition provided $60 million to meet bond maturities in cash and $9 million to reduce the floating debt. In addition, securities to the value of $696 million were renewed or converted, not including the annual renewal of $33 million of school lands debentures. Of the cash obtained by the issue of new securities, $60 million came from the increase in the treasury bill issues, $170 million resulted from the sale of $200 million 2-year notes to the chartered banks less a reduction of $30 million in the deposit certificates outstanding; the remainder, $2,732 million, was the proceeds of borrowing from the general public. War savings certificates, together with the accumulated interest thereon, yielded $47 million net, non-interest-bearing certificates $1 million and sales of victory bonds $2,684 million.

In the budget speech of last year, I charged national war finance committee with the duty of promoting continuously the sale of war savings certificates and stamps and of organizing and conducting two victory loan campaigns. This task they faithfully and brilliantly accomplished.

Sales of securities and stamps, including conversion sales, by the national war finance organization amounted to about $2,947 million. Of this total, sales to individuals, excluding those in the special names canvass, amounted to $1,239 million and the number of applications on the occasion of the fifth victory loan rose to 3 million. With the permission of the house, I shall put on *Hansard* a brief table giving the detail of these sales:

Security	Total amount (millions)	Sales to[1] individuals (millions)	Sales to others (millions)	Number of applications (millions)
Fourth victory loan cash sales	$1,308·7	$ 529·5	$ 779·2	2·7
Fifth victory loan cash sales	1,375·0	599·7	775·3	3·0
Conversion sales	195·6	42·2	153·4	0·0
Total	$1,570·6	$ 641·9	$ 928·7	
War savings certificates	66·5	66·5	....	10·2
Stamps[2]	1·4	1·4	....	....
Total	$2,947·2	$1,239·3	$1,707·9	....

[1] Excludes individuals covered in the special names canvass.

[2] Net increase in public holdings; certificate sales include certificates issued against payments in stamps. Total stamp sales in the year were $12·2 million.

This is the largest volume of securities which has ever been sold to the Canadian public in any year, but probably it will have to be exceeded in the present year. Further, bonds and certificates are now held by more people than ever before. It is estimated that there are at least 2½ million persons holding war and victory bonds, and perhaps over 3½ million individuals holding war savings certificates.

The costs of our public borrowing operations are very low considering the magnitude of the loans, and the number of individual transactions. In the year ended March 31, 1944, costs incurred by the national war finance committee, with respect to the sale of victory bonds, and war savings certificates and stamps, amounted to only about 87 cents for each $100 of securities sold—that is, seven-eighths of 1 per cent of total sales. To achieve such outstanding results at this cost, is, in my opinion, a proud record of accomplishment. It is a record which is made possible only by the voluntary services of the tens of thousands of people who form the voluntary staff of the national war finance organization, by the tremendous energy and enthusiasm they bring to the discharge of the war-time responsibility which has been entrusted to them by their fellow-Canadians, and by the unremitting and wholehearted support given to our victory loans by business firms, by the press, the radio, the motion picture industry, and by labour, agricultural, and many other organizations and groups throughout the country.

There is one point at which the record of our war financing is not as good as I would wish. On several occasions over the past two years, I have referred to the fact that many investors are disposing of victory bonds they bought during campaign periods, and that many people are presenting war savings certificates for redemption. I should like to say here a further word to the millions of Canadians who now own victory bonds and war savings certificates.

Last year, I said that when a person buys a victory bond or a war savings certificate, that person is helping his country to get the materials needed for war use, and, in doing so, is doing his part to fight the home-front battle against inflation. I went on to say that when people sell their bonds or have their certificates redeemed, they are withdrawing this help. These statements are true to-day as they were a year ago. This is a time for increasing our support of our fighting forces. It is not the time to withdraw it. We are giving and maintaining this support when we set aside the largest possible amount of savings for the purchase of victory bonds and certificates, and when we hold on to the bonds and certificates we now own.

Emergency needs for cash are one thing. Unnecessary spending, financed by the turning of bonds or certificates into cash, is quite another. Unnecessary spending at this time is a betrayal of our obligation to the men who are risking their lives and dying in the great battle for world freedom.

Everyone who owns bonds or certificates should always remember that a reserve of savings will be of great value to the individual and to the nation after the war. When materials and productive facilities can again be devoted to civilian use, more and better-quality goods will be on sale than are available to-day. Now is the time to lay aside funds for building something after the war, or for buying something new and durable, or to start one's own business—or to expand it.

In the meantime, the money invested in bonds and certificates is ready for emergency use at any time it may be needed because there is always a ready market for victory bonds, and war savings certificates are redeemable any time after six months from date of issue. But before any person sells his bonds or presents his certificates for redemption, I would ask him to weigh his real or imagined need for cash against his country's need for his continued support at this critical stage of the war and against the advantages, national and personal, which can be realized by the postponement of spending until after the war is over.

THE FUNDED DEBT

At March 31, 1944, the gross unmatured funded debt is estimated to have been $10,689 million, of which ninety-seven per cent was held in Canada. The net debt at the same date was $8,842 million. The annual interest charge on the funded debt was $274 million or an average rate of 2·57 per cent. On March 31, 1939, the average rate of interest on the funded debt was 3·52 per cent. In addition to the funded debt, there are outstanding bonds and debentures, guaranteed by the government of Canada, in the amount of $699 million, a decrease of $17 million during the year.

From time to time, concern is expressed over the growing size of the national debt. The increase in our national debt as a result of war should be viewed in perspective. There are other considerations than the amount, which is determined chiefly by the necessity of war expenditures. In the five years from 1914 to 1919, the debt of that day had increased nearly seven times, but because the average rate had risen from 3·579 to 5·022 per cent the annual interest charges had risen more than nine times. Further, about one-third of the debt was payable outside the country and a substantial portion of the debt was in tax-exempt securities. Commodity prices had more than doubled, and were about to fall.

In the past five years, while the funded debt has increased slightly more than three times, the average rate of interest has declined from 3·52 to 2·57 per cent, and the annual interest charges have risen two and a quarter times. If we take into account the revenue received by the government then the net interest charges have increased only by a much smaller amount. The share of the debt payable outside the country has fallen from twenty-six to scarcely more than three per cent; there are no tax-exempt bonds, and we have every expectation of a post-war price level not seriously lower than the present.

I do not wish to push historical comparisons too far; they do give some perspective and draw attention to significant facts. I would emphasize rather that, while the national debt has increased, our national income, and with it our capacity to carry the debt has fully doubled since the beginning of the war. I would point out that the debt is almost wholly domestic. What is paid in debt charges goes into the pockets of taxpayers whose taxpaying capacity is thereby increased. We have, through the great efforts of the war finance committee and as a matter of deliberate policy, succeeded in distributing our new borrowing very widely so that the interest on the public debt will be paid, not to a few institutions and men of wealth, but to probably not less than sixty per cent of the income-earners of this country. These are reasons why I have confidence in the ability of the country to carry this debt and in the soundness and stability of these bonds as an investment.

II

BUDGET FORECAST 1944-45 AND PROPOSALS

The record of 1943-44 has been made reasonably clear. It is quite a different task to make realistic estimates and proposals for 1944-45. The events and circumstances which will determine the course of the year's activities have not yet unfolded.

The expenditure estimates for the year now current are known to the house. For non-war expenditures as covered in the main estimates $702 million is required. The war estimates stand at $3,650 million, about $62 million less than our war expenditures last year. The Mutual Aid appropriation is $800 million. The estimated expenditures thus reach a total of $5,152 million. This is some $350 million less than the total estimates for last year and $208 million less than the actual expenditures last year, but as will be pointed out later this amount does not represent the whole of our requirements.

On the revenue side, it is estimated that, under the present tax laws, revenues in 1944-45, not including the refundable portion of axes, will be $2,617 million as compared with $2,701 million in the past year. I shall place on

Hansard a statement showing the details of this estimate in comparison with the revenues of 1943-44:

	1944-45 (millions)	1943-44 (millions)
Customs duties	$ 160	$ 168
Excise duties	150	142
Sales tax	290	305
War exchange tax	120	119
Other excise taxes	225	215
Income taxes:		
Personal	830	813
Corporate	300	311
Excess profits	425	469
Interest and dividends	27	27
Succession duties	17	15
Miscellaneous	8	8
	$2,552	$2,592
Non-tax revenue	145	140
Total ordinary revenue	$2,697	$2,732
Special receipts	$ 75	$ 124
Total revenue	$2,772	$2,856
Less refundable taxes	$ 155	$ 155
Net total revenue	$2,617	$2,701

The table shows that, under the present tax laws, we anticipate declines from customs duties and sales tax. These, it is thought, will result from two sources. In some lines there is likely to be a reduction in volume. To some degree, these taxes are being removed from individual items as administratively a more practical alternative than paying subsidies where such are necessary to maintain the price ceiling.

It is expected that revenues from the personal income tax will increase but that revenue from the corporate income tax and from the excess profits tax will decline. Non-tax revenues are likely to show a small increase.

If these expectations are borne out, there will be a decline of slightly less than $100 million in our total revenues this year. Expenditures of $5,152 million and revenues of $2,617 million will result in a budgetary deficit for 1944-45 of $2,535 million, about $124 million less than that for 1943-44. These estimates are carefully made, but I shall say frankly that I do not attach much importance to the anticipated decline in the deficit. We have entered the period of the most active and widespread offensive operations of the whole war. I consider it not only probable but certain that the swiftly moving events of this year will require expenditures which could not have been anticipated months ago when our appropriations were made up—expenditures which no one would for a moment hesitate to make. In short, while I am bound to subtract our anticipated revenues from the expenditures for which parliament has been asked to make appropriations, I cannot conceal my own conviction that when the accounts for 1944-45 are closed, we shall find that the budgetary deficit has, in fact, been greater, not less, than that for 1943-44.

I have already explained at some length that the amount of our cash deficiency differs substantially from the budgetary deficit, and that our total cash requirements do not coincide with our total expenditures. I have reason to believe that, even though our expenditures do not turn out to be greater than the present appropriations, our cash requirements will exceed those of last year.

The probable circumstances affecting various asset accounts are involved in this prediction, but I shall mention only the main ones. The house and indeed the whole country is aware that, after some reduction in the output of war materials and equipment of which great stocks had been built up, there is now intense pressure, in this as in allied countries, to increase war output to the highest possible peak so that the tremendous operations which have been begun so successfully on the continent of Europe may not be limited nor men be sacrificed for lack of fire-power, equipment and supplies. This vast flow of food, supplies and equipment from field and factory to the advancing fronts of Italy and France is a miracle of organization and a prime requisite of victory. Some of these supplies go to our own forces and are covered by the war appropriation which may have to be supplemented before the end of the present fiscal year. Others go to our allies under an arrangement that, in consideration of their being used by their forces for the defeat of the enemy, no payment will be required now or later. These are covered by the Mutual Aid appropriation. Beyond these, there will probably be large shipments, payment for which is not provided under the war appropriation or the Mutual Aid appropriation. For these we shall have to take payment only in the future or present payment in a currency other than Canadian. Whatever the arrangements, they have this in common that, economically, we can at present get no additional goods in exchange for what we send, and, therefore, the pressure on our man-power is increased, and, financially, we have to find the cash, here and now, to pay for their production and transportation.

There are other factors affecting other asset accounts, but I think I have said enough by way of explanation. As nearly as we can now estimate, even though our expenditures chargeable to the budget should prove to be lower than those of last year, our cash requirements are likely to be some $200 million in excess of those of 1943-44, in other words something over $6,000 million, and mainly because of the need for arms and supplies to press the invasion and secure the victory.

BASIC CONSIDERATIONS

The cash requirement is the first, and most stubborn fact, with which we have had to reckon in framing financial proposals for the current year. This is the measure of the goods and services which must be acquired for war and other governmental uses. Whether in acquiring them, we incur an expenditure or make an investment has some significance for the future but none for the present. It is not unexpected that in this critical year our cash requirements should be high, and, in fact, as I have explained, they are higher than in any previous year.

The second consideration is the urgent need to achieve and maintain the highest possible production of goods and services of which our available working force and management is capable. The urgency of production is very great, and it is immediate. This is not a matter of building up a great organization from which output will flow in one or two years' time. The need is for maximum production now—from our present capacity and working force. It cannot be met except by maximum production per person.

A third consideration is the desirability of relieving cases of special hardship which very frequently arise when tax rates are heavy, and of removing some anomalies which experience has revealed in the working of our laws.

Finally, we have felt it necessary to keep in mind that we are nearer the end of the European phase of the war than we were. It is not in any spirit of foolish optimism that I state this consideration. The most gruelling part of the race is ahead of us, and if, by great good fortune, the coming months should bring victory in Europe, the Japanese phase of the war will still call for great efforts. Nevertheless, it is no more than prudent to give sober consideration to some of the problems which will arise when we are able to release some portion of our productive capacity for the purposes of peace. Let no one misunderstand me. This is no time to begin the execution, as distinguished from the making, of post-war plans. There is other work for every pair of hands at the moment. I am concerned only with clearing away some of the uncertainties of fiscal policy—opening the way for business firms, both large and small, to proceed on as definite as possible a basis with the drawing up of plans for the post-war conversion and expansion of industry and trade on which employment after the war will depend. If the planning and designing can be done, the execution of the plans will come in good time.

[Mr. Ilsley.]

These are the considerations which we have had in mind in framing the financial proposals for this budget.

PERSONAL INCOME TAX

In reviewing the personal income tax, we have given consideration to many contentions that our rates of tax are too heavy and entail serious hardship particularly on persons with low incomes. Realizing that war-time taxation can never be light, we have, nevertheless, carefully reviewed our taxation in its effects on the lower incomes and in comparison with the taxes of other countries..

The main features of our income tax as they affect persons of low income are these: The personal income tax, including the compulsory savings element, consists of two levies. A normal tax of seven per cent is levied on the whole taxable income of single persons who receive more than $660 a year and of married persons who receive more than $1,200 a year. A tax credit is given for each child. In addition, a graduated tax is levied in ascending rates on the taxable income in excess of $660 and tax credits are given for wives and dependents. In order that incentive might not be destroyed by the abrupt application of the seven per cent rate to incomes slightly in excess of $660 or $1,200 there was at first a provision that the income could not be reduced below $660 or $1,200 by reason of the tax, including the compulsory savings portion, and later there was substituted the present provision that the total tax could not be more than two-thirds of the amount by which the taxable income exceeded $660 in the case of single persons or $1,200 in the case of married persons. Thus for single persons whose taxable income is between $660 and $820 the tax on each additional dollar of income is 66⅔ per cent, of which half is compulsory saving and only the other half is pure tax. For married persons, the same rate applies to a range of incomes above $1,200. For those without children the range is considerable, while for those with children it is less extensive.

The suggestion most frequently made is that we should increase the exemptions from $660 and $1,200 to $750 and $1,500 or even higher figures. This would relieve a considerable number of present taxpayers from income tax altogether and would reduce total taxes substantially for all others, no matter how large their incomes. There is a variety of other ways in which taxes could be reduced.

In considering the level of taxes, we are all inclined to look back to the exemptions and rates in force in Canada in 1939. It will improve our perspective if we look also at the exemptions and rates provided in the laws of other countries to-day. In the United States, the basic exemptions under the 1944 income tax law are $500 for single and $1,000 for married persons. In the United Kingdom, they are the equivalent of $356 for single and $623 for married persons. In Australia, the exemption for single persons is $372 and for married persons without children there is no additional exemption though the rates are lower than for single persons. In New Zealand, there is no exemption whatever in respect of the basic 12½ per cent national and social security taxes, which are levied on the whole income, no matter how small, without exemption, while the exemptions for the graduated tax, and for that only, are $713 for single and $897 for married persons.

In comparing our tax rates with those of other countries, we must remember that our tax is divided into two parts: the first is pure or fixed tax, and the second a refundable or savings portion which will be paid back with interest after the war, and, unlike the compulsory saving in the United Kingdom, it has not to be paid by any taxpayer who is making equal, contractual savings voluntarily. In any comparison of tax rates with those of allied countries, we must compare tax with tax, not with savings. I am not sure that it is generally understood that on this basis Canadians in the lower income groups are not taxed more heavily than the people of other countries.

On the contrary, on the basis of non-refundable taxes, single persons, in the United States, getting from $500 to $1,000 are more highly taxed than in Canada; at higher incomes the Canadian taxes are higher. Married persons without dependents and with incomes from $500 to $1,500 are more highly taxed in the United States; from $1,500 up, our taxes become higher. In the United States, a married person with two children pays a higher tax than our law imposes until the income rises above $1,600.

For each of the three categories, single, married with no dependents, and married with two dependents, and for all levels of earned income up to $2,000 at least, the fixed or non-refundable income taxes payable in the United Kingdom, Australia and New Zealand are substantially higher than in this country.

Mr. GRAYDON: Have those other countries compulsory savings?

Mr. ILSLEY: The United Kingdom has.

Mr. GRAYDON: The other two, Australia and New Zealand, have not?

Mr. ILSLEY: I do not think so.

With the permission of the house, I shall place on *Hansard* tables showing these comparisons in detail for incomes up to $2,000. I commend these tables to the careful attention and study of the house:

COMPARISON OF INCOME TAXES PAYABLE IN CANADA, UNITED STATES, UNITED KINGDOM, AUSTRALIA AND NEW ZEALAND

SINGLE PERSON—NO DEPENDENTS

Earned Income	Canada		United States	United Kingdom		Australia	New (a) Zealand
	Fixed Tax	Savings Tax		Fixed Tax	Savings Tax		
$	$	$	$	$	$	$	$
500	0	0	0	0	31	31	63
600	0	0	12	18	42	50	75
700	11	1	32	45	44	74	88
800	45	45	53	72	46	102	113
900	66	66	74	99	49	133	144
1,000	91	79	95	126	51	168	172
1,100	120	88	115	153	53	207	202
1,200	149	96	136	180	55	247	233
1,300	181	104	157	207	72	288	264
1,400	213	112	177	235	89	328	294
1,500	245	120	198	275	94	369	327
1,600	277	128	219	316	98	410	359
1,700	311	136	239	358	101	451	392
1,800	347	144	260	399	105	493	424
1,900	402	152	281	441	108	535	458
2,000	439	160	302	483	111	577	491

(a) Includes national security and social security taxes.

COMPARISON OF INCOME TAXES PAYABLE IN CANADA, UNITED STATES, UNITED KINGDOM, AUSTRALIA AND NEW ZEALAND

MARRIED PERSON—NO DEPENDENTS

Earned Income	Canada		United States	United Kingdom		Australia	New (a) Zealand
	Fixed Tax	Savings Tax		Fixed Tax	Savings Tax		
$	$	$	$	$	$	$	$
500	0	0	0	0	0	9	63
600	0	0	2	0	0	20	75
700	0	0	4	0	2	36	88
800	0	0	7	0	32	51	100
900	0	0	10	0	61	67	113
1,000	0	0	12	25	65	102	142
1,100	0	0	15	52	67	140	171
1,200	0	0	36	79	70	173	201
1,300	31	31	57	106	72	208	231
1,400	65	65	77	133	74	244	262
1,500	98	98	98	160	76	281	293
1,600	127	127	119	187	93	318	323
1,700	148	148	139	215	110	356	356
1,800	170	170	160	243	127	395	388
1,900	195	189	181	285	130	434	421
2,000	229	199	202	327	134	473	453

(a) Includes national security and social security taxes.

COMPARISON OF INCOME TAXES PAYABLE IN CANADA, UNITED STATES, UNITED KINGDOM, AUSTRALIA AND NEW ZEALAND

MARRIED—TWO CHILDREN

Earned Income	Canada		United States	United Kingdom		Australia	New (a) Zealand
	Fixed Tax	Savings Tax		Fixed Tax	Savings Tax		
$	$	$	$	$	$	$	$
500	0	0	0	0	0	0	63
600	0	0	2	0	0	0	75
700	0	0	4	0	0	0	88
800	0	0	7	0	0	3	100
900	0	0	10	0	0	12	113
1,000	0	0	12	0	0	39	125
1,100	0	0	15	0	0	69	138
1,200	0	0	18	0	4	96	150
1,300	17	17	20	0	33	125	171
1,400	21	21	23	0	62	156	199
1,500	24	24	26	15	76	188	229
1,600	28	28	29	42	79	222	257
1,700	40	40	31	70	80	257	289
1,800	62	62	34	97	82	292	320
1,900	84	84	37	124	84	328	350
2,000	106	106	39	151	87	365	381

(a) Includes national security and social security taxes.

The combined rates of tax and savings levied in Canada on nearly all incomes up to $2,000 are higher than the pure tax rates payable in the United States. They are at no point as high as the combined tax and compulsory savings rates payable in the United Kingdom, and they are rarely as high as the rates of pure, non-refundable tax levied in Australia and New Zealand.

[Mr. Ilsley.]

These are the facts regarding the relative height of our tax rates, and neither they nor the financial requirements of the year offer any support to proposals for tax reduction. Nevertheless, I appreciate that there are among the lower income groups cases of hardship where individual circumstances increase the severity of the deductions from income required under our law. We had this in mind when we provided so large a refundable portion in the combined tax and savings levy. We had it in mind in providing that the savings portion need not be paid if the taxpayer was making equal contractual savings voluntarily, and when provision was made for an allowance against unusual medical expenses. In framing the present law, great importance was attached to the large savings portion to be returned with interest after the war. Yet I realize that any large compulsory payments, whether they are refundable or not, will create hardships in the particular circumstances affecting some family budgets. It is the chief virtue of voluntary saving in comparison with compulsory saving that it is more flexible and can be adjusted more readily to fit the particular and changing circumstances of different individuals and families.

Other considerations have also given concern. It has been widely represented that the high rates of deduction for income tax purposes is having an adverse effect on production, particularly as many taxpayers apparently do not make any distinction in their minds between refundable and non-refundable taxes but regard them all as simply taxes. The fact that it is not administratively possible to issue certificates for the refundable portion until a considerable time after the deductions are made contributes to this misunderstanding. At this stage of a long war, there are many causes contributing to absenteeism, unwillingness to work overtime and lack of application on the job. But it is alleged that the high rates of deduction for tax and savings are a contributing factor. I am not in a position to judge fully how far this is true, but I do know that now is the time when the need for greater production is urgent and immediate.

In the period of the war in which we have been building up our income tax and savings law and our collection machinery, we have also been building up a voluntary savings organization, which has achieved a notable record of success. Under the national war finance committee, the organization and stimulation of voluntary savings have been brought to a very high level indeed. The work of the national war finance committee now permeates the whole nation to a degree which had not been attained when compulsory savings were instituted.

In reviewing all the circumstances, I have been impressed with an undesirable feature of our income tax. As I have already indicated, our law moderates the abrupt application of the seven per cent normal tax to incomes slightly in excess of $660 and $1,200 by providing that the total tax, including the savings portion, shall not be more than two-thirds of the amount by which the taxable income exceeds $660 or $1,200. Nevertheless, this is a high rate of levy on each extra dollar earned and though it extends over a limited range of incomes, it is undesirable if it seriously blunts incentive.

In the second place, as I mentioned earlier, we cannot overlook the number of cases of special difficulty and hardship which result from high combined tax and savings rates when the savings rate is as rigid and as compulsory as the tax rate.

I have been forced to the conclusion that it would be a desirable change in our income tax law to discontinue the refundable feature of the income tax leaving as the full rates of taxation, the rates of pure, non-refundable tax as they now stand, and depending on voluntary savings to replace the proceeds of the compulsory saving provision. This step will reduce the total tax deductions from each additional dollar of income earned, by one-half for those in the lower income ranges who, being without contractual savings, had to make the full compulsory savings contribution. It will substitute the flexible instrument of voluntary saving for the more rigid method of compulsory saving. The refundable feature of our income tax law provided simply a method of borrowing and of borrowing for progressively shorter terms as the war goes on. With its provision of allowances for contractual savings, it embodied a principle of fairness which I regret to relinquish. Nevertheless, if this particular method of borrowing, despite its virtues, has the one fault of discouraging production at this critical period of the war, or if by its rigidity it creates hardship among those income groups whose incomes leave little room for adjustment, then another method of borrowing must be found.

It is recommended, therefore, that no further deductions for the refundable or savings portion be made after June 30, 1944. This will mean that for the year 1944 as a whole, the liability for compulsory savings will be reduced by one-half, deductions having been made during the first six months of the year. For 1945, it is recommended that the total tax liability shall be reduced by the amount of the required savings portion applicable to each taxpayer. More simply, the rates and deductions now applicable to those who have full offsets in contractual savings will apply to all taxpayers.

I must repeat and emphasize that this proposal does not imply that the need for saving is less. On the contrary, from every point of view, the need is greater than ever before.

Civilian goods continue to be in relatively short supply; the demands from the war fronts are more imperative; and overall cash requirements are mounting to new high levels. Only the desire to remove a barrier to production, to do away with misunderstandings and to meet legitimate complaints of hardship could have induced me to recommend at this time a step which tests still further the willingness of our people to respond to the appeal for voluntary savings. It is on voluntary savings that the country must rely to replace the $110 to $115 million dollars a year which will be relinquished by the change. If our people understand the need, I am sure that they will answer the call.

The other changes which are proposed in the personal income tax are changes in detail designed to relieve cases of special hardship. I shall state only the principle of each change and defer fuller explanation until the house discusses the resolutions.

To make the medical expenses allowance now provided in the Income War Tax Act more fully and fairly available to those who have the misfortune to encounter unusually heavy medical expenses, it is recommended that medical expenses incurred outside of Canada should be allowed on the same basis as if incurred in Canada.

In recognition of the additional expenses which they incur, it is proposed that persons suffering from blindness, as defined in the Old Age Pensions Act, be permitted an allowance of $480 in the form of a deduction from income. This is to be an alternative and not an addition to the allowance for the wages of a full-time attendant now provided under the medical expenses section of the act.

The dropping of the refundable or savings portion of the income tax will help to alleviate many of the cases where our taxes result in some measure of hardship. There are other recommendations to which I now wish to refer respecting dependents, which are intended to recognize more fully than before the varying circumstances of family responsibility. These I believe will be thoroughly in keeping with the greater emphasis that we shall be placing upon family welfare after the war. With the introduction of family allowances we are taking a great stride forward in improving the position of those with low incomes and family responsibilities. Now with respect to dependent children, it is proposed to authorize the extension of the tax credits now granted in respect of the taxpayer's children to include illegitimate children and other children dependent on the taxpayer. In the registration records covering all children, which are necessary for the administration of family allowances, there will come into existence a dependable basis for administering this extended provision which has not hitherto existed. In respect of dependents other than children, I am recommending that the allowances now given for the support of blood relatives be extended to include relatives by marriage supported by the taxpayer.

Our present provision that when the wife or husband, as the case may be, of a taxpayer has an income from investments in excess of $660, both shall be taxed as single persons, has resulted in very severe penalties. There is no concern over cases in which both the taxpayer and his wife have substantial incomes, but when the wife's income rises a small amount over $660, the husband who is a taxpayer loses the tax credit of $150, becomes liable to the higher rates of normal tax imposed on single persons, and has his refundable portion reduced even though the family income may have increased by only a few dollars. It is proposed to provide a method for avoiding these penalties in the marginal cases by allowing a gift to be made to the crown in the right of Canada and to allow such a gift as a deduction from income. Thus, a husband whose wife has an income exceeding $660 need not be taxed as a single person unless her income exceeds $660 by an amount sufficient to equal the additional tax resulting from the single status.

The present provision, whereby a person paying alimony or comparable payments to a divorced or separated wife or husband, as the case may be, is allowed, as a tax credit, the amount of the tax for which such wife or husband is liable on that income, has worked great hardship in the case of persons with relatively low incomes and making relatively low payments. It is proposed, therefore, to amend the law so that the amount of such payments shall be allowed as a deduction from income.

There are a number of amendments related to the retirement of employees from service and contributions to pension funds. It is proposed to allow those who receive long-service gratuities in a lump sum on retirement from service to spread the sum over five years for tax purposes. Contributions of an employee to an approved pension fund are now allowed as a deduction from income up to $300. It is proposed to allow, additionally, payments up to the same amount into such funds by employees, if required to make up past deficiencies. Contributions to approved trade union pension funds paid in the form of union dues are to be allowed as a deduction from income, as is now done in the case of other approved pension funds. It is proposed that persons reaching the age of sixty-five shall be entitled to the return of refundable taxes standing to their credit after the end of the year in which they reach sixty-five.

The present period of thirty days allowed for making an appeal against income tax assessment is much too short to be fair to members of the armed forces and I am recommending that for them it be extended to one year, or such longer period as the Minister of National Revenue may allow.

To the various powers to require information, it is proposed to add the power to require anyone accepting deposits to report the interest paid on such deposits.

There are some amendments affecting the status of those who maintain in the words of the act "self-contained domestic establishments" which will require detailed explanations into which I shall not enter now. Other proposed amendments would allow taxes paid to foreign governments to be deducted from the non-refundable portion of our tax rather than the total tax, change the penalty for late filing, and the rate of interest on unpaid tax, and limit the time within which assessments can be reopened, except in case of fraud or misrepresentation, to six years after the first assessment.

There are two special income tax problems to which we have given a great deal of study in the past year and to which I wish now to refer. The first of these is the treatment of annuities and other like payments, such as the various types of pension and retirement plans. I have been strongly urged, both in the public press and by letter, to alter the present basic rule under which life annuities are taxed in the same way as any other form of income. The principle upon which our law is founded is the same as that which underlies the income tax in Britain, where so many of the fundamentals of income tax law were developed. This English law has been thoroughly tested in many appeals to the courts, and affords us a well-established foundation on which to base our act and its application. The essential principle we follow is that a life annuity contains no element of capital repayment which the law should recognize. This general principle was commended by the distinguished royal commission which reexamined the income tax in Great Britain in 1920.

The critics argue, however, that just as we recognize an element of capital repayment in an annuity for a fixed term of years, so we should, by taking into account normal life expectancy, recognize a portion of a life annuity, in any one year, as a return of capital rather than income. Nevertheless, in dealing with the matter there are more than actuarial considerations to be taken into account. Our basic concept of income—the essential distinction between income and capital payments —is involved. Moreover, we must relate the treatment of annuities to the treatment of pensions and retirement plans of various types. We should, in fact, reconcile the treatment under income tax of the various forms of the accumulation and use of savings. This is a complicated task, and there are many conflicting considerations. In this respect, it may be necessary to consider not only the form of the annual payment but also its origin. Furthermore, we should, I believe, have in mind the relation of annuity and pension plans to succession duties as well as to income tax, and not only the position of the individual taxpayer but the broader aspects of public policy. If the wealthy are to convert their capital into annuities and live upon a presumed return of capital tax-free, we shall lose substantial succession duty revenue.

If we should recognize a portion of a life annuity as return of capital, we are faced with many complex questions in our treatment of pension plans. For example, could we with fairness regard partly as capital the pension given in the form of an annuity by a generous employer to an old employee on retirement, while treating entirely as income the wages of another, whose employer is unable or unwilling to retire him in similar circumstances? How should we reconcile the treatment of life annuities with the payments out of pension funds at present entirely free from income tax because the payments by employees into the fund have not been exempt? Would it be fair to continue to allow as a deduction from income the contribution of employees to approved superannuation plans? If we should change this practice, how much return of capital are we to recognize in the resulting superannuation payments? Should we not reconsider then our practice in overlooking, as income of the employee, the contribution made on his behalf to the pension fund by his employer? How can we best achieve fairness in the combination of income tax and succession duties when applied to various types of provision for retirement and family security, including, for instance, various life insurance and endowment plans, periodical payments under wills which may or may not be supported by the corpus of the estate, various types of annuity and superannuation plans, and even the normal accumulation of property or securities? If we continue to adhere to the British principle, where should the line be drawn in its application to the various combinations of term and life annuities, and between annuities and pension plans? Finally, must we recognize inevitably the wastage of capital in its financial forms and not the wastage of human capital which all must suffer who work for a living?

I mention these difficulties merely to demonstrate that much careful, detailed review of our law is necessary before we embark upon a new course in the basic treatment of annuities and pensions.

The second income tax problem to which I referred is much less common but probably more difficult and incapable of any wholly satisfactory solution. It was briefly discussed last year in the house and I said we would try to work out some form of alleviation for what we recognized to be cases of unfairly heavy taxation. It is created by the combined incidence of income tax and succession duties upon the holdings of deceased persons in private corporations with accumulated surpluses, when these holdings cannot readily be sold to others—as can shares in larger and public corporations—and funds must be obtained through the transfer of the surplus to the taxpayer's estate. I have seen a number of cases where after the payment of income taxes on the lump sum distribution of the surplus the amount left would not be sufficient to pay the succession duties. Since the enactment of our Dominion Succession Duties Act in 1941 and the raising of our income tax to its present heights, this problem has become most acute. In addition to confronting many families with grave difficulties, this problem, it is alleged, may endanger the whole future of private and family businesses, forcing them to consider either selling out to larger companies or the distribution of their shares through the securities markets, thus sacrificing the advantages of personal management by the proprietors—one of the sound and well-recognized virtues of small businesses. My colleague, the Minister of National Revenue, and I have looked into dozens of cases of this kind and tried out quite a number of formulae designed to avoid the inequity arising from this combination of taxes without creating unfairness either to the taxpayers or the crown. We have not yet succeeded in finding a satisfactory plan for dealing with these hard cases. We believe that with further study, a plan can be devised that will afford a measure of justice, relieving at least those cases where the present laws would leave little, if anything, for the family of the chief shareholder in a private company, while the estate of an equally wealthy man owning more readily marketable shares in a large, well-known corporation would pay only the fair rate of tax which parliament and the provincial legislatures intended. When a solution is achieved, I would recommend that it should be applied in respect of those cases now pending.

In the hope of securing the best and soundest solutions of these two difficult problems, I am proposing to make use of the procedure which has frequently been found of value in dealing with particularly difficult tax problems in Great Britain, and therefore to recommend the appointment of a special commission to inquire into these problems in detail, to examine the various types of cases involved, to hear evidence if necessary, and to make recommendations for their solution. As a consequence, I am expecting that in next year's budget, answers to these difficult basic problems of our income tax can be proposed which will not only appear as reasonable and practical under war conditions, but which may be expected to stand the test of time as well.

EXCESS PROFITS TAX AND CORPORATE INCOME TAX

Business profits are taxed under the Excess Profits Tax Act and corporate profits are taxed additionally under the Income War Tax Act. Profits withdrawn from business are again taxed as personal income. As a result of this overlapping of taxes, high wartime rates, and the strict definition of income, our tax treatment of business profits is severe. I imagine that most members of the house are unaware of the great extent to which our taxation of business profits as such is more severe than that of either the United Kingdom or the United States. I have always taken and still maintain the view that our policy in this regard is right and proper in war time. I have no amendments to propose which will in anything but a minor way affect our current revenue from taxes on business profits.

One of the great dangers in imposing high rates of tax on business profits is that of inadvertently going beyond the taxation of profits and making inroads on capital or to put it another way that the taxes collected shall turn out to bear a much higher rate to the ultimately realized income than was contemplated in the law. The danger has its origin in the fact that business taxes are imposed on a yearly accounting basis whereas only a period of years, taking the good with the bad, will reveal the true earnings of an enterprise. Our present law makes some allowance for this, but, generally, we tax the yearly profits at very high rates and disregard the losses. We cannot shut our eyes to the fact that with the change from war to peace many firms may encounter temporary losses and under our present practice, taxes paid over the whole period of war and readjustment may bear considerably higher rates to the full realized income than those prescribed in the law. I am particularly concerned lest for this reason, when the time comes to replace war industries with peace industries, business enterprises should be handicapped in making the necessary changes or should be hesitant rather than prompt in action.

I am proposing, therefore, for the purposes of the corporation income tax and the excess profits tax, that business firms shall be allowed to charge their losses in any one year back to the profits, if any, in the preceding year and forward to the profits, if any, of the succeeding three years. This will permit a firm to charge losses which it may encounter in the first post-war year against the profits of the last war year. It will give such a firm the further assurance that losses which it incurs in the period of converting and expanding its business may be made a first charge on the profits of the succeeding three years when it may hope to be reaping some of the results of its enterprise.

This recommendation will bring our taxation of business profits nearer to the principle of taxing only what is actually realized in income over a period of years and should be of substantial assistance to business enterprise in the post-war years.

Another point, at which our taxes on business income have gone beyond the taxation of true income, is in the matter of expense for maintenance and repairs. These, of course, are a normal expense of doing business. For the past two years, in certain industries at least, it has been impossible, by reason of shortages of materials and labour and the necessity of continuous operations, to carry out the maintenance and repair work that would be normal and necessary to prevent the deterioration of plant and equipment. As a result, deferred maintenance expense is accumulating, and, in the meantime, profits are inflated because full maintenance is not charged. We have tried in the past to find some equitable formula for permitting the setting up of a maintenance reserve, but it is extremely difficult to devise one which will fit the varying circumstances of all industry.

We are now recommending a provision for the future which I hope will meet the problem in at least a partial way, and will speed up the work of plant repair in a period when additional employment may be needed. The proposal is that one-half the expenditure on maintenance and repairs, incurred in a period to be fixed by the governor in council, may be charged against the income of a previous fiscal period but not farther back than the fiscal periods ending in 1943. In the case of the mining industry, maintenance and repairs will be held to include also underground development work.

I have also some important recommendations which should facilitate the expansion of industry after the war. All will agree that Canadian industry must expand its research and technical development if we are to apply the most advanced technical knowledge to our resources, and maintain our competitive position. By all means, let us borrow whatever is best from other countries, but what we can borrow is not always what we need. The present tax treatment of expenditures for research is somewhat less than generous, and has some arbitrary results. Two classes of expenditure for research are not allowed as an expense of doing business: capital expenditures such as for laboratories, pilot plants, et cetera, and current expenses for research which are not directly related to the firm's immediate production activities. It is recommended that these limitations be removed and that all expenditures on research of a current nature be allowed in the year of expenditure and that research expenditures of a capital nature be written off as an expense over a period of three years.

There is a practical problem of the very greatest significance to which consideration has been given. Our drastic Excess Profits Tax Act is entirely a war-time measure. It has been appropriate to a war economy, but, in my opinion, it would be highly inappropriate as normal peace-time legislation. On the other hand, it would be a great mistake to repeal the measure until the conditions, which it was designed to meet, have disappeared. We do not know when the end of the war will come. Whether it comes soon or late, we do not know how closely the need for industrial and commercial conversion and expansion will coincide with the end of the war. What we do know is that at some time on fairly short notice it is going to be necessary to say to business, now is the time to put into effect your post-war plans. It is quite clear to everyone that present rates of taxation are, as they are intended to be, very discouraging to new enterprise, other than necessary war enterprise, and that the prudent course of a business man would be to delay his new ventures until the new level of taxation had been established. On the other hand, it is impossible and improper for a Minister of Finance to announce what will be recommended to parliament in future budgets.

I am making a recommendation which I think offers a practical way out of this dilemma, maintaining our present revenues and conforming to the principle of restricting taxation, as nearly as possible, to taxation of income. It is that we provide that, in respect of bona fide new investment in depreciable assets carried out after a date to be designated by the governor in council, the taxpayer should be allowed rates of depreciation which may vary at the option of the taxpayer between maximum rates double the present ordinary rates and minimum rates which will be one-half the ordinary rates.

The significance of this proposal is twofold: first, it will allow the taxpayer to recover a part of his capital whenever earnings are good but will still leave all the income or profit, actually realized from the venture over its whole life, subject to taxation; second, it will allow him, in respect of such new investment carried out at a time when the government has declared the conversion and expansion of industry to be desirable, to transfer some of his income from a period when war-time tax rates may still be in effect to a later period when he may expect normal taxation to be lower. To this extent, it will relieve such investment for post-war purposes from such war-time taxation of business profits as may still be in effect at the time the work of conversion or expansion is carried out. It should be borne in mind that the taxpayer can write off no more than the full value of his new investment and to the extent that he reduces his taxable income in the early years he will increase it in the later years. There is nothing in the proposal which allows income to escape taxation.

There is a further recommendation to facilitate the plans of private industry for post-war expansion. It is desirable that, when the time comes to encourage such expansion, business firms shall be able to use the post-war refunds due to them under the Excess Profits Tax Act. On the other hand, although some firms may need them before others, it does not seem desirable that the government should make refunds available on a selective basis. It is, therefore, recommended that the act be amended to permit the assignment by way of security of the refundable portion in cases in which the governor in council is satisfied that the funds so obtained will be used in capital expenditures in preparation for post-war business giving desired employment.

The other recommendations which it is proposed to make on business taxation concern the detailed provisions of the act, and I shall try to explain only two or three of them.

The first affects new businesses under the Excess Profits Tax Act. At present, a company starting a new business enterprise cannot know in advance of the beginning of operations what standard profit will be subsequently awarded by the board of referees. This uncertainty makes it difficult for a company to proceed with its plans. The amendment which I am recommending will provide that for the first fiscal period of a bona fide new business, taxes shall be levied at the flat rates which, in the ordinary case of corporations, will be forty per cent. This will give certainly to the tax position of the company for its first year. Thereafter, taxes will be levied in accordance with whatever standard profit is awarded.

Since the beginning of the excess profits tax in 1940, many businesses have substantially increased the volume of capital employed through ploughing back earnings. This has enabled them to expand productive facilities to meet the needs of war production. Unless a company has made an equivalent issue of capital stock, annual increases in the capital employed have not been taken as justification for any increase in the standard profits of the business, even though as a result of this reinvestment of earnings the business is substantially larger than it was in the standard period. It is now proposed, after four and one-half years of the operation of the Excess Profits Tax Act, to allow one adjustment upward in standard profits. The allowable adjustment upward will be an amount equal to five per cent of the increase in capital employed since the coming into force of the act where, under other provisions, no adjustment has been allowed in respect of new capital used in the business.

Those familiar with the technical features of our corporation income tax are aware that at present dividends paid from one Canadian company, whose earnings have been taxed, to another Canadian company are not taxable income in the hands of the receiving company. Furthermore, under certain conditions dividends from a wholly-owned subsidiary operating outside Canada are not taxable in the hands of the recipient Canadian company. In view of the fact that the profits of Canadian subsidiaries earned abroad will have already borne tax abroad at rates comparable to our own, it is now proposed that these dividends shall not again be taxable in the hands of the Canadian company receiving them. They are, of course, taxable when distributed by the Canadian company to its shareholders.

During recent months we have been urged to introduce a number of drastic changes in the tax structure as it affects the mining and oil producing industries. These industries are very properly considering their post-war position and the contribution which they can make to the solution of post-war problems. Needless to say, the government has very much in mind the need of a comprehensive and many-sided programme to encourage the efficient development of our natural resources and to assure that these industries will make the maximum contribution to the expansion of employment, national income and national wealth after the war. Natural resources, of course, are for the most part in the hands of the provinces, but the dominion, it is believed, can do much to promote full development and wise conservation. Tax policy may be one of the devices which it may appropriately use to these ends but it will be by no means the only one. The dominion's programme should be part of an integrated programme worked out in cooperation with the provinces. At the forthcoming dominion-provincial conference, this programme, it is proposed, should be discussed with provincial governments and agreement reached as to the contribution to be made by the respective levels of government.

For these reasons I believe that any radical changes in tax policy of special application only to the mining and oil companies would be premature at this time. The Excess Profits Tax Act already includes a special formula for the taxation of oil wells and gold mines. New companies in the metalliferous mining field enjoy a three-year exemption from excess profits tax. In last year's budget we made a number of important concessions to encourage exploration and drilling for oil and also made it possible for mining companies to write off exploration and prospecting expenses incurred in prospecting anywhere in Canada for base metals or strategic minerals. With this measure of encouragement the oil and mineral industries have been able to make a very important contribution to the country's war effort. They have also been willing to bear their full share of the burden of financing the war and they well recognize, I believe, that the need for war revenue continues at least as great and as urgent as ever. The changes I have announced in respect of income and excess profits taxation and the indications I have given in regard to future tax policy will apply to these industries as well as to other industrial enterprises and I hope that it may be possible to announce at the next session of parliament the comprehensive and integrated programme for the development and conservation of natural resources to which I have already referred.

While changes of a general nature in this field cannot be announced at this time, there is one situation which I believe calls for some immediate attention. My colleague, the Minister of Munitions and Supply, has recently reported to this house the serious situation in regard to supplies of oil. It is, I think, in the national interest that some additional encouragement be offered to the Canadian oil industry to undertake the drilling of several deep test wells in certain areas with a view to proving up significant, geological structures. The budget resolutions therefore include a recommendation to provide a tax credit of fifty per cent of the cost of any well drilled in the selected areas and spudded in between June 26, 1944, and March 31, 1945, if such well proves to be unproductive. This tax credit will be allowed only with respect to projects recommended by the Minister of Mines and Resources and approved by the governor in council.

With regard to the encouragement of prospecting for base metals or strategic minerals, it is proposed to extend for a further year the provision whereby a tax credit has been given in respect of contributions to prospecting syndicates.

TRADE AND TARIFF POLICY

For the present, the customs tariff is without any great influence on the scope or direction of external trade. Scarcity of supplies, agreed allocations, bulk purchasing, import and export permits, and import subsidies—these are the instruments which determine, for the time being, the extent and pattern of world trade. Changes in the customs tariff would here and now have little, if any, effect on the supply or cost of goods. The government continues, however, to have the most lively appreciation of the importance to this country, and, indeed, to all other trading countries, of entering a post-war world which has been freed or is assuredly being freed not only from the extraordinary wartime restrictions on trade, but also from the high tariffs, quotas, import licensing, and other restrictive and discriminatory trade practices which so paralyzed and dwarfed world trade in the inter-war years. As the time approaches when we and other countries must convert our productive resources to the purposes of peaceful prosperity, it becomes increasingly important that we should be able, in agreement with others, to set out the broad pattern of post-war trade policy, so that producers may know toward what markets they may orient their post-war plans.

The government's policy was clearly set out in the budget speech of last year and it may be appropriate to quote from that speech. After a reference to the obligations the government had assumed to enter into conversations with other countries on international economic policies, the following words were used:

Committed to these objects and having in mind particularly the vital concern of this country in access to the selling and buying markets of the world, the government is prepared to discuss with the government of the United States, the government of the United Kingdom, or the governments of other countries with which we trade, reciprocal trade arrangements wider in scope and longer in duration than have hitherto been made, provided always that the advantages of such arrangements shall be open to other countries willing to adhere to the same terms.

We believe that questions of post-war commercial policy must be tackled broadly and boldly; we believe that world trade must have a more liberal and dependable charter than it has had in the past two decades; and that countries, such as Canada, for which world trade is the very blood stream, should be prepared, not merely to accept desirable arrangements but to take the initiative in working out a plan mutually of benefit to ourselves and to other countries. We believe that countries, which have had long experience of friendly relations should associate themselves with that initiative and furnish to others examples of concrete accomplishment in the distribution of the world's products for the mutual welfare of all people.

On several occasions in the fifteen months which have elapsed since the budget of 1943 was presented, our officials have had exploratory and noncommittal conversations with officials of other countries on a wide range of economic matters, including, among others, monetary arrangements, international lending, the control of cartels and monopolies, international cooperation in promoting high levels of employment, and commercial policy. We have pressed forward studies of our own on these matters both with a view to contributing to these international discussions and to lay the basis for domestic measures in these fields. As has already been made public, the most progress in the international discussions was made in the field of monetary arrangements where agreement was reached among experts on the establishment of an international monetary fund. While equal progress was not made in the much more complex field of commercial policy, our officials pressed vigorously the need for a bold initiative in the orderly and agreed unshackling of world trade, if the ideals of economic expansion, higher incomes, full employment, adequate nutrition and the progressive abolition of poverty are to become realities. Considerable progress has been made in the definition and solution of the technical problems involved, and we shall continue to press at the appropriate time for the rapid development of a broad programme.

It is not, therefore, our intention to present at this time proposals for comprehensive alterations in our tariff structure. Such alterations would have no great immediate effect, and it is desirable that, if possible, we should make them in conformity with reciprocal arrangements made by other countries.

However, the government desires to give concrete evidence of the direction which it is endeavouring to follow in the formulation of post-war commercial policy. It desires also to give to agriculture assurance in respect of some of the conditions under which it may expect to operate after the war, just as it has tried to give to industry some assurance in the field of taxation policy.

Canadian agriculture will be faced with important opportunities in the post-war period and if it is to take full advantage of them, its costs of production should be at the lowest practicable level. Recognition of this fact was given by the farm improvement loans bill and several important provisions of the bill for the extension of the bank charters now under consideration by the banking and commerce committee. These measures have as one of their most important objectives the provision of credit facilities to farmers which will enable them to purchase agricultural implements at the lowest cost on a cash basis. With the same end in view, the government believes it appropriate to provide at once and without waiting for the completion of reciprocal arrrangements with other countries for the removal of all customs duties on agricultural implements. It is therefore recommended that agricultural machinery, including cream separators, and parts thereof, be made free under all tariffs. While it is impracticable from a revenue standpoint to remove the war exchange tax on the general range of commodities, the war exchange tax on agricultural machinery and cream separators and parts thereof is being removed along with the customs duties.

The removal of the customs duties and war exchange tax on farm implements will not increase the supply of such implements coming from the United States because they are subject to restricted allocations. The wartime prices and trade board will however amend its order setting ceiling prices on imported farm implements and repair parts in such a way as to give effect to any decreases in the laid-down cost to importers which will result from the action taken.

There are a number of other changes in the tariff but they are changes of detail made to remove anomalies and reduce administrative difficulties. They need not be explained until the resolutions are before the house.

THE WAR EXCHANGE CONSERVATION ACT

An important amendment to the War Exchange Conservation Act is proposed. The house will recall that this act was passed in December, 1940, as one of the means taken to reduce the demand for United States dollars at a time when our payments in that currency were running far in excess of our receipts. It was estimated at the time that the restrictions of imports then enacted would save $5 million to $6 million a month in badly-needed foreign exchange.

By that measure, a long list of articles enumerated in schedule I was prohibited entry into Canada, if imported from any country other than the sterling area and Newfoundland, except under permit granted by the Minister of National Revenue. It was understood that for the items under part I of the schedule no permits would be granted, while for those in part II permits would be granted on a restricted and declining scale.

Schedule II of the act contained an extensive list of items on which customs duties were reduced for imports entering Canada from the United Kingdom. Since 1940, there have been amendments to this part of the act extending the list and further reducing the duties. Duties on imports from the United Kingdom have in all cases, except liquors, tobaccos, sugar and silks, been reduced by at least 25 per cent, in the great majority of items by at least 50 per cent, and, on a great many, been removed altogether.

The house will realize that the discriminatory prohibitions of imports contained in the War Exchange Conservation Act would not in normal circumstances be compatible with our trade agreement with the United States and in taking the reluctant step of recommending the measure to parliament, the government evoked the war clause of that agreement. It was made very clear to our own people also that the measure was an emergency measure, and would not be maintained for protective reasons. In introducing the resolutions on December 2, 1940, I emphasized that it was "not for the purpose of assisting any producers or any industry . . . but to protect our exchange position."

As I explained to the house in my statement of April 21 of this year, our position in respect of foreign exchange has greatly improved, and the government is of the view that we are no longer justified in maintaining these severe restrictions of imports from the United States. We do not wish to deprive our own people of any supplies which may be procurable nor do we wish to retain these emergency prohibitions after the emergency is past. We wish further to make perfectly clear that this type of emergency trade regulation has no place in our normal trade policy.

It is recommended, therefore, that schedule I of the War Exchange Conservation Act and the relevant clauses be repealed.

There are some further explanations which I should add. It must not be assumed that there will forthwith flow into this country a flood of imports. Because of the scarcity of supplies in the United States, many of these prohibitions have been quite nominal in effect. Further, it is not proposed to extend import subsidies to luxury goods, and it will not be profitable in many lines to buy at United States prices and sell at the Canadian ceilings.

The house should understand also that import permits are required in many cases under other authority than that of the War Exchange Conservation Act. For purposes of allocating shipping space, to assist in the equitable allocation of short supplies among our own industries, and under arrangements made by the various combined boards, orders in council under the War Measures Act have imposed the requirement of import permits either for overseas imports or for imports from all sources. In some degree, these controls have been built around the War Exchange Conservation Act. It will, therefore, be necessary to determine what, if any, extensions of these orders in council are required by the amendments being proposed to that act. It may be that in some cases it will be necessary to supplement somewhat our import controls because of the amendments now proposed. Any such supplementary measures will, however, not discriminate against countries outside the sterling area. In order that there may be time to examine the effect of the withdrawal of schedule I from this act, on our whole system of import controls and make any necessary adjustments in it, I am recommending that this amendment should be effective as from August 1 of this year.

The changes proposed in the Succession Duty Act this year are quite minor in character. The details will be found in the resolutions which will be tabled. Similarly, the changes in the Sales Tax and in the taxes levied under the Special War Revenue Act are neither sufficiently numerous nor important enough to require explanation here.

CONCLUSION

This completes the changes in legislation which we are recommending. None of these changes will affect current tax revenues to any significant degree, although the dropping of compulsory savings will mean a loss in non-tax receipts estimated at $70 million for this fiscal year and $110 million for a full year.

To recapitulate the financial outlook for this year, taking account of the changes which are being recommended, we must start with the statement that our total cash requirements are likely to be $6,000 million or more, that is, about $200 million more than last year. Our revenues will probably be about $50 million lower than last year, and we are giving up receipts of about $70 million from compulsory savings. Our borrowing requirements will, therefore, be some $320 million more than in 1943-44 or more than $3,200 million.

To meet these requirements, having discontinued compulsory saving for individuals, we must turn to voluntary saving and to the national war finance committee, on whom the government depends for mobilizing the voluntary savings of the country and for whom this year I bespeak the active assistance of every member of this house and every Canadian citizen.

Throughout this speech, I have laid emphasis on the importance of the savings programme to Canada's war effort, on its importance to the continued success of our efforts to hold down the cost of living, and on its relationship to the preservation of an orderly economy. Everybody who has participated, in any way, in the work of the national war finance committee can take great pride in its past achievements, and in the valuable patriotic work they are doing for their country. These men and women command our respect and our thanks.

The work of the national war finance committee is an integral part of our economic life, and it will continue to occupy this important status for some time to come. The need for large scale public borrowing operations is very great this year, and will continue as long as the war goes on, and, in my opinion, will extend into the period of reconstruction which will follow the termination of hostilities. I hope and believe that the men and women who have brought our wartime savings programme to its present stature—the men and women who have the experience and the knowledge necessary to the successful organization of these huge public loans—will continue to perform this patriotic work for the balance of the war period and after the war until the time when the need for this type of borrowing will have passed. This whole speech has made clear that the need for large public loans is greater than ever. There can be no slackening in the support of the activities of the national war finance committee. On behalf of the government, and of the people of Canada, I urge all those now associated with the national war finance organization to continue the good work they have done thus far. The need for this form of national service is not drawing to a close. The need for determined, persistent effort, for undiminished vigour, and for imaginative planning will be particularly important this year, and must continue for some time to come.

Looking to the current fiscal year ending March 31, 1945, I would request the national war finance organization throughout Canada, firstly, to continue their efforts to encourage the maximum volume of personal savings by the Canadian people; secondly, to promote, by every possible means, the retention of bonds and certificates now owned by Canadians; thirdly, to organize and conduct another victory loan in the fall of 1944, with greater emphasis than ever on the sale of bonds to individuals; and, fourthly, to promote continuously the sale of war savings certificates and stamps.

They have already carried out a part of the borrowing programme for 1944-45 with conspicuous success in the sixth victory loan. Full report on that loan will be made to the house but I would point to a notable achievement, the record of cash sales to individuals of $644 million.

Let me explain why we attach so much importance to increasing the sales of bonds and certificates to individuals. We must borrow some $320 million more than last year. This additional amount we must borrow mainly from individuals. The real investing ability of business firms and corporations, apart from such as the insurance companies which act as intermediaries in mobilizing personal savings, will not exceed during the current fiscal year the amount of bond purchases which they made in the year ended March 31, 1944. We cannot hope to increase our sales in that quarter.

We have not avoided borrowing from the Bank of Canada and the chartered banks in the past, but we wish to keep it to an absolute minimum. Borrowing from the banking sys-

[Mr. Ilsley.]

tem has its place when it is desirable to expand credit and increase purchasing power. But when as now, purchasing power in the hands of the public is far in excess of what is needed to buy what is available for sale, and is an ever present danger to the price ceiling and the orderly distribution of goods and services, borrowing from the banking system is to be avoided as much as possible.

It is on an increase in personal savings and on the work of the war finance organization in mobilizing those savings that we must rely. Borrowing the personal savings of individuals for the temporary use of the nation at war is the only type of borrowing which will relieve rather than increase the inflationary pressures which are continuously at work. The trend of personal incomes is still upward, and, despite taxation, the excess of personal disposable income over the cost of necessary wartime living standards is greater than ever before.

If anyone thinks we Canadians at home are being asked to do too much, let him make some comparisons. Let him compare the small privations and the limited self-denial that we at home have endured up to now with the hardships and difficulties which are being endured by our armed forces on world battlefronts. Let him consider the standard of complete, selfless devotion to the common cause shown by our men who are serving in the navy, the army, and the air force. As long as this war goes on, as long as Canadian lives are at stake, we here must not let down in any phase of our war effort. The burden of our responsibility is heavy indeed—but given the will to succeed, we have the strength to carry it.

We are told that victory in Europe may come soon, that victory in the Pacific may not be long postponed. I do not know. I do know that we are well on the road to victory. I do know also that now, when victory is within our grasp, is no time to falter. The fruits of victory will go to those countries which can hold steady on the threshhold of success, and whose people can, in mutual trust, work together for peace and a better world as they have worked together for victory. To finish this war in triumph, not only in the field, but in our production and financial programmes at home, will carry us far toward the realities of better things after the war.

RESOLUTIONS

Mr. ILSLEY: Mr. Speaker, I desire to give notice that when we are in committee of ways and means I shall move the following resolutions:

INCOME WAR TAX ACT

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

1. That for 1944 the total tax on individuals be reduced by one-half the amount of the refundable portion thereof, less one-half credits for savings, and that for 1945 the total tax on individuals be reduced by the full amount of the refundable portion thereof, less credits for savings.

2. That dependents as referred to in the said act be extended to include parents-in-law, grandparents-in-law, brothers-in-law, sisters-in-law, sons-in-law and daughters-in-law in the same circumstances and subject to the same conditions as parents, grandparents, brothers, sisters, sons and daughters respectively.

3. That the provision under which a tax credit is allowed in respect of a child of the taxpayer be extended to include an allowance in respect of any person under eighteen years of age and dependent upon the taxpayer for support, including an illegitimate child.

4. That the allowance in respect of unusual medical expenses be extended to include such expenses incurred outside of Canada.

5. That the deduction in respect of unusual medical expenses be extended to allow as a deduction in any taxation year such expenses actually paid in any twelve-month period ending in the taxation year.

6. That in lieu of the deduction in respect of unusual medical expenses of the amount of salary or wages paid to a full-time attendant upon a taxpayer who is totally blind, the taxpayer shall have the option of deducting $480 from his income in the taxation year.

7. That the basis for taxation under the normal tax and the tax credit against the graduated tax allowed to an unmarried person who maintains a self-contained domestic establishment and actually supports therein a person wholly dependent upon him and connected with him by blood relationship, marriage or adoption, be extended to a married person separated from the spouse.

8. That, if a taxpayer maintains one of his children in a self-contained domestic establishment in which he employs a full-time housekeeper or servant, the tax credits of $80 against the graduated tax and $28 against the normal tax be allowed to him in respect of the child notwithstanding that he is entitled to the tax credit of $150 against the graduated tax in respect of that child.

9. That the basis of taxation under the normal tax and the tax credit against the graduated tax for a married person be limited to a married person who supports the spouse.

10. That individuals may reduce income for taxation purposes by the amount of gifts made in money to His Majesty in right of Canada if such gifts are made within the year when the income was received or within four months from the end thereof.