ago Russia built the canal which passes up the Volga river from the Caspian sea, thence over to the Don river and thence into the sea of Azov and the Black sea. But none of these canals can be compared in importance with the St. Lawrence system which, with the exception of the 14-foot canal, remains undeveloped. One of the most costly sections, I should add, has been built by the Beauharnois Power Company, but the power has been only partly developed.

The canal has been built, and all that is necessary now to connect lake St. Francis with lake St. Louis is to erect locks adjacent to the power house. Really what remains for us to do here in Canada is to reconstruct the Lachine canal which connects the harbour of Montreal with lake St. Francis and the stretch from Cornwall to Prescott.

Mr. MacNICOL: Not with lake St. Francis, but with lake St. Louis.

Mr. FULFORD: Yes, with lake St. Louis. This great natural resource should not be wasted. This work would mean that many thousands of men could be employed during the period of rehabilitation, and it would mean a power development even greater than that at Boulder dam or the recent development on the Saguenay river.

With all seriousness and earnestness I ask this committee to give the fullest consideration to the development of what is the continent's greatest natural resource, the St. Lawrence deep waterway.

On motion of Mrs. Nielsen the debate was adjourned.

At six o'clock the house took recess.

After Recess

The house resumed at eight o'clock.

THE BUDGET

ANNUAL FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

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

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

He said: Mr. Speaker, the financial and economic requirements of war become greater, and more exacting as the scope and thoroughness of our plans grow. This fifth war-time budget will exceed all previous standards and make provision for expenditures on a scale which it is sometimes difficult for any of us to appreciate.

The task of preparing this budget has been cheered by the growing evidence that we have seized the offensive, and the power of the united nations is already striking deep into the enemy's defences. There is, too, the expectation that our own land forces will soon match the blows which our air force and navy have struck against the aggressor. But if the valour of our men and of our allies is now translating our economic and financial programme into telling blows against the axis powers, there is every reason for pressing that programme forward and none for relaxing it.

As I have said frequently, financial measures are but one of the means through which we link the whole war programme together. They are instruments and not ends in themselves. They are instruments which must be used wisely lest we frustrate our efforts now and sow the seeds of intolerable conditions later. Financial measures are one of the means through which each person has his share in this war. Taxes and loans are not exactions from the people by a government. They are weapons which the people through their elected representatives and the free methods of democracy have fashioned for their own use and their common purpose. We cannot all man guns and planes and ships; we cannot all build guns and planes and ships, but the Canadian people have shown by the reception which has been given to each succeeding war-time budget that they are ready to wield these weapons, each according to his strength and all against the people's enemies. They are ready to accept their share in each increase in the effective organization for war of which the budget is but the financial counterpart.

It is by the single purpose of the people of this country and her allies that this war will be brought to the desired end. It is by the sober, tenacious purpose of the men and women of this and other countries that a just and durable peace will be written. The proposals which I shall lay before the house tonight are the recommendations which the government makes to the elected representatives of the people of this country for improving the financial means by which each of us may throw his whole weight into this struggle—and help to make possible a world more worthy of our better selves.

I

ECONOMIC AND FINANCIAL REVIEW

The current fiscal year has been marked by the coming to fruition of all our major production programmes, and yet, as we approach our full capacity, the increase in over-all production is less marked than last year.

Industrial production in Canada rose from an index figure of 208 in December, 1941, to 251 in December, 1942. Such over-all figures however, conceal what has been taking place. While detailed production figures are not disclosed, the increases of 20 to 75 per cent in the numbers employed in the production of such things as chemicals, electrical equipment, iron and steel, and motor vehicles, and of more than 100 per cent in the case of those engaged in shipbuilding, tell their own story of war production. A number of other industries, partly war and partly civilian, have just maintained the level of employment. But there is a lengthening list of industries, producing, in the main, less essential goods, which show over the past year definitely reduced employment. It is the shifts in production rather than the over-all increase which tell the significant story. We have, in recent months, been definitely in the period when substantial increase in war production can be achieved only at some loss of less essential production and in which we must be prepared to shift men and resources from one kind of production to another, as changing needs dictate.

We have been confronted with our inability to satisfy fully both war requirements and the high levels to which unrestricted war-time consumption has gone. It has been necessary, therefore, to restrict consumption and use in a growing number of instances in order that supplies for the armed forces should be fully assured, and the goods and services available distributed in an orderly and equitable manner. The problems raised by this situation are difficult and often extremely vexatious, but their emergence is a clear indication that we are reaching the stage in our war programme which it was the desire of every Canadian that we should reach, namely, the stage when we would be producing not merely what we could produce comfortably but all that we could possibly produce from the resources and manpower at our disposal. If we had no shortages, no vexatious restrictions, no farm labour problem none of the problems and difficulties which have been debated in this house in recent weeks, we could be certain that we were falling far short of a full-out war effort.

In a war of such extent and movement, in which technical improvements have already played so large a part, it was not to be expected that shortages would emerge in a well ordered and easily forseen pattern. The mounting of the allied offensives and the unlimited submarine warfare have made the limitations of ocean shipping particularly severe. Facilities for land transport have been heavily taxed, and the severity of the weather has introduced unusual difficulties in making the fullest use of the facilities available. The offensive phase which the war has entered has necessarily imposed changes in the direction and emphasis of our war programme. As the experience of battle redefines the needs of the armed forces, we can expect to be faced with increasingly difficult problems of controlling the production, distribution and use of goods and services.

There are sufficiently frequent occasions for discussing before the house the government's policy of controlling prices, wages and salaries, that it is neither necessary nor desirable to say more here than that it continues to be an integral part of the war-time fiscal and economic policy, and that without it that policy could not be carried out effectively. Though there are plenty of critics of particular applications of this programme of control, there is none who advocates its abandonment. By the payment of consumer subsidies to offset a substantial part of the increase in the cost of living, which it was not possible to avoid, the government, after a year's experience, has reaffirmed its determination to adhere to this programme and to continue to reserve to parliament the right to distribute the financial and economic sacrifices of the war by its taxation measures rather than to have them distributed by the haphazard forces of changing prices and incomes.

As explained in the budget speech of last year, our exchange problems have now become pretty well merged with general fiscal problems. The shortage of United States dollars has ceased to be a major problem and the decisive position which it held in our early budgets has been overshadowed by the limitations imposed upon us by shortages of shipping and resources and man-power. It has already been announced that a measure will be introduced to provide, out of such war production as can be made available, for the needs of those united nations whose supplies of Canadian dollars are inadequate to permit them to purchase such equipment and materials as they need.

The estimates of revenue and expenditure and other relevant information are set out in full in the white paper which I shall table before I resume my seat. I wish, however, to report briefly on the probable results of the year and on the financing which has been carried out. The house will bear in mind that the fiscal year does not close until March 31 and that the figures which I quote are, therefore, estimates only.

It is estimated that all revenues, including the refundable portion of income and excess profits taxes estimated at $100 million, will total $2,309 million, over 55 per cent above the revenues for 1941-42.

Total tax revenues are forecast at $2,136 million including the $100 million of refundable taxes. This compares with $1,361 million for the previous year and is very close to the forecast given at the time of the last budget. Direct taxes on incomes and profits are now overwhelmingly the largest sources of tax revenues, yielding nearly two-thirds of the total. The graduated tax on personal incomes, the special tax on income from dividends and interest and the national defence tax which was in operation for only five months of the fiscal year, are expected to yield $568 million, an increase of $244 million. The corporation income tax and the excess profits tax will, it is anticipated, yield $805 million in contrast with $321 million for the previous year. It will be recalled that some part of this increase was the result of introducing payment by monthly instalments and will be non-recurring.

Excise taxes, at $477 million, will show an over-all increase of $24 million despite conspicuous reductions in the yield of some individual taxes. The largest item in this group, the sales tax, at $230 million net, will show a decrease of $6 million from the previous year's yield.

Thanks to the substantial increases in rates imposed by the budget legislation of 1942, excise duties are expected to reach $142 million as compared with $110 million in the previous year. Customs duties, having reached their recent peak in 1941-42, are likely to decline to $118 million from $142 million for the previous year.

Non-tax revenues, of which the largest source is the Post Office, are expected to reach $114 million. Special receipts and credits will be about $59 million, the largest contribution being the $25 million operating surplus of the Canadian National Railways.

On the other side of the account, we estimate that total ordinary expenditure for 1942-43 will be approximately $566 million, or $121 million above that of the previous year. Toward this increase, interest on the public debt contributed $30 million; compensation to the provinces in respect of income, corporation and gasoline taxes, $74 million; the Unemployment Insurance Act, $7 million; and the Post Office, $4 million. Miscellaneous increases account for the remaining $6 million. Capital expenditures, at $3,862,000, will be slightly higher than those of the previous year. So-called special expenditures are likely to be about $31 million, less than half the expenditures under this category in 1941-42.

The western grain crop was such that it was not necessary to make payments under the Prairie Farm Assistance Act; wheat acreage reduction payments were somewhat less than in the previous year; and the reserve set up to meet deficits arising out of the operations of the Canadian Wheat Board in respect of the 1939 and 1940 crops has proved to be more than ample, resulting in a credit adjustment of $6,600,000.

Government-owned enterprises, specifically, the Prince Edward Island Car Ferry and the National Harbours Board, will require about the same expenditures as in the previous year, $1,263,000.

In the budget speech of June 23, 1942, I intimated to the house that, although the War Appropriation Act and the United Kingdom Financing Act made provision for expenditures of $3,000 million, the actual war expenditures were likely to be considerably in excess of that figure. It now appears that they will reach $3,803 million, including an item of $200 million for the purchase of the British interest in Canadian war plants.

Miscellaneous other charges of $66 million involve mostly items of a bookkeeping nature, including the addition of another $25 million to our reserve to meet possible losses on realization of active assets, and the charging of $36 million to a non-active account (the Canadian National Railways Securities Trust Stock) as the contra-item to the taking into revenues of the operating surplus and certain capital gains of the Canadian National Railways.

Including all these categories of expenditure, the aggregate expenditures for 1942-43 as now estimated will be $4,470 million, as compared with an estimate of $3,900 million given at the time of the last budget. Deducting total revenues for the year of $2,209 million after excluding refundable taxes, we arrive at a probable over-all deficit or increase in direct net debt of approximately $2,261 million. The proportion of expenditures paid out of revenue, namely 49·4 per cent will thus fall slightly short of the estimate of 52 per cent which I gave last year.

Total borrowings during the year (exclusive of some $33 million of school lands debentures reissued to the western provinces) are estimated at $2,423 million. Of this, $1,070 million, including $77 million from the sale of war savings certificates and stamps and $1,825,000 from non-interest bearing certificates, will have been borrowed from the public. An amount of $90 million was borrowed in New York for refunding purposes. Borrowings from the Bank of Canada amounted to $443 million, including the renewal of a loan of $250 million. By the end of the year, it is estimated, $790 million net will have been borrowed from the chartered banks. During the current year, in order to obtain funds needed in the intervals between public loans, we introduced the practice of borrowing directly from the chartered banks on deposit certificates, a six month security bearing interest at $\frac{3}{4}$ of 1 per cent per annum. The amount outstanding at the end of the fiscal year will be substantially reduced when the next victory loan is issued.

Direct obligations of approximately $429 million (excluding school lands debentures) were redeemed during 1942-43, leaving net borrowings for the year of $1,994 million to which must be added an estimated $100 million of refundable taxes. This amount of $2,094 million, together with a decline of approximately $642 million in cash and other current assets and the amount of various advances repaid was used to meet the overall deficit of $2,261 million and to make loans and investments of $517 million net, after allowing for amounts repaid on various outstanding advances. The largest of the new investments were the loan of $700 million to the United Kingdom under the War Appropriation (United Kingdom Financing) Act and an advance of $131 million to the Canadian National Railways, chiefly for the redemption of railway securities.

It is estimated that on March 31, 1943, the outstanding unmatured funded debt (including treasury bills) will amount to $7,861 million on which the annual charges will be $205 million or 2.6 per cent as compared with 2.9 per cent a year previously. In addition, there will be outstanding obligations guaranteed by the government of Canada to the amount of $716 million, a decrease of about $102 million during the year.

Perhaps this is a convenient point at which to remind the house that the financial work of the government has not been completed when the budget has been discussed and legislation passed. In carrying out the approved policy, we depend on two extensive, competent, and hard-worked organizations. It is the task of the Department of National Revenue to collect the taxes enacted by parliament. The department is represented by its own Minister in the house and it is not for me to say more than that the financial programme of the war has, to a degree not generally appreciated, laid heavy and exacting duties on the very loyal and able officials of that department.

The other side of the financial programme, borrowing from the public, is carried on through the National War Finance Committee which was established by the government in January, 1942, under the able chairmanship of Mr. George W. Spinney. Formation of this committee marked the creation of the first single nation-wide organization, responsible to the government, charged with the dual task of planning, organizing and administering arrangements for the maximum public sales of government securities, and of promoting maximum voluntary savings by all classes of Canadian individuals and corporations.

In effect, the committee represented a merger between the war savings committee,—which had been operating continuously since May 1940,—and the Victory Loan Committee —which had been set up as a temporary organization to arrange and conduct the first victory loan campaign in June, 1941.

Since its creation, the National War Finance Committee has welded together the previously existing war savings and victory loan organizations. At the present time, the permanent paid staff of the committee, located in Ottawa and throughout Canada, numbers only about 275 persons. This staff operates in conjunction with three main bodies of workers.

First, there are the voluntary workers attached to the local units in each province. These patriotic men and women are drawn from every group in the community. While, individually, most of these people are on a part time basis, collectively they form the largest group of workers associated with committee activities, both during and between large scale drive operations. This form of service on the home front is of vital importance, and I hope it will be possible to enlist the aid of more and more persons in this phase of our war programme. I should be most remiss if I did not take this opportunity of acknowledging the valuable work being done by these voluntary workers, and to express to them the thanks of the government and their fellow-Canadians.

The next body of workers are the salesmen on commission, and other temporary paid workers employed by the committee at the time of victory loan campaigns. These salesmen do much of the hard work of selling victory loan bonds, in small amounts, to individual investors, by house to house canvass in urban and rural areas. The salesmen who receive commission generally give up their regular jobs during the period of the loan. The money they receive as commission replaces the money they otherwise would make at their regular work, although, in many cases, the amount they receive as commission is less than their regular income. I should perhaps add that commissions are paid only on relatively small individual subscriptions, where the canvassing work is comparatively difficult. Commissions are not paid on orders from larger investors, such as business firms and corporations, nor on bonds sold to employees in medium and large size business organizations.

The third group of workers associated with the National War Finance Committee are the investment dealers and brokers, and persons from the regular staff employed by dealers and brokers. This body of professional workers is closely associated with committee operations at all times. Maximum participation is reached in the period of organization preceding victory loan drives, and during the period of public offering of the loans. In general, investment dealers and brokers do the organizational work, and, during loan campaigns, carry out the canvass of large corporate and individual investors. Investment dealers and brokers are paid for their participation in committee activities, a reasonable remuneration based on the number and nature of the staff made available and the previous record of the firm in the distribution of dominion government securities.

I have made these explanations in regard to payments to salesmen on commission, and to investment dealers and brokers, because of some public misunderstandings on these subjects. It is to me and to those familiar with money-raising campaigns a rather remarkable fact that the over-all cost of these intensive and extensive victory loan campaigns, including the cost of engraving the bonds and of all publicity activities, can be kept as low as 1 per cent of the amount of money raised.

At the time of the third victory loan, in October-November 1942, temporary paid staff, including salesmen on commission, numbered about 15,500, and voluntary workers, many additional thousands. For organizational purposes, Canada is divided into local unit areas, each of which is under a local voluntary war finance committee. These local unit committees in each province are under the control and direction of the National War Finance Committee for that province. The operations of the provincial organizations are coordinated by the central committee for the dominion which has its headquarters in Ottawa.

Our financial programme for the year has been carried out with a high degree of success. To finance expenditures of nearly $4,500 million is in itself an achievement of which we have no reason to be ashamed. It is the financial counterpart of still more notable achievements of organization and production. But I would like to add some frank words of warning on four points:

My first point is this: On occasion, comparisons have been made of our taxes with the taxes of other countries to show that Canadians are contributing a higher proportion of their incomes in taxes than the citizens of other countries. The financial burden of the war on this country is not measured by the amount of taxes levied. It is measured by the amount of expenditures which are financed. Borrowing does not lessen the cost of the war to this generation. The taxation and borrowing policy merely decides how the burden shall be distributed among the people of the country. The only ways in which we can postpone some of the costs of the war are by borrowing abroad, (if by so doing we can obtain additional supplies of goods abroad) and by using up the physical equipment and inventories of the country and leaving the post-war population to repair the wastage. To some degree, we are relieving the present by the second of these ways. The first is not only undesirable but also would provide only slight relief because of the virtual impossibility of getting additional supplies from abroad. Since the main cost has to be carried during the war, it is the policy of this government to distribute that burden as far as practicable according to the incomes which people enjoy during the war, that is to say, by taxes levied according to ability to pay. The equity of that policy cannot, I think, be challenged successfully.

Secondly, it has been suggested that Canadians are being asked to contribute too much in proportion to our national income. I shall not attempt to elucidate to the house the intricacies of national income estimates. My knowledge extends just far enough to warn me that the most accomplished statisticians find it extremely difficult to make valid comparisons between countries and that, when they have made them, the layman is almost certain to misconstrue them. But there is a much simpler comparison which is more convincing. After we have met our war requirements, what is left for consumption by the civilian population? Is it higher than the pre-war standard of consumption or is it lower? Do we work longer hours or apply ourselves more intensively than other nations? The evidence of both statistics and common observation is pretty clear that all we have experienced so far on the average is some moderate decline from the peak of war-time consumption, and some increase in the inconveniences of shopping and travelling. Let no one so misinterpret statistics as to assert that these approach the economic sacrifices of countries nearer to the theatres of war than Canada.

In the third place, we have now passed the point where we can in a short time increase our total output by any large amount. What one group may gain by pressing its advantages of the moment, other groups lose. The conflicts thus started will paralyse our striking power just at the time when it must be at its height. What, broadly speaking, have been the changes in incomes during the war? Corporations and other businesses have experienced large increases in profits which have been reduced by taxation and compulsory saving to a level not higher than 70 per cent of the pre-war standard profits. This is the most severe and rigid ceiling in force in this country. Personal incomes of the middle and higher income groups have borne the brunt of war-time taxation to the point where very definite reductions in customary standards of living have been forced. Receipts from the sale of farm products are reported to have reached a higher level in 1942 than in any year in the past two decades. Receipts from the sale of farm products are not equivalent to farm income. Farm costs have also risen but there is every evidence that farm incomes are at more remunerative levels than in any but the record years. Average weekly earnings of employed persons are at higher levels than they have been since the inflation boom following the war of 1914-18. Thus there has been a far-reaching and important change in the distribution of income in the country. On the whole, the directions of the change have been desirable and the government has welcomed and facilitated it. The increases, by and large, have gone to those who needed them most. But we have reached the point when the demands of some labour representatives and of some farm representatives cannot both be satisfied. Ability to resolve group differences is the decisive test of democracy. Nothing will frustrate our striking force so much as internecine strife over economic and financial advantage. Nothing would so belittle us in the eyes of those other Canadians who offer as a contribution to victory neither economic nor financial sacrifice but life itself.

Finally, on the year's financial results themselves. The plain fact is that this year we have had to depend too much on bank borrowing. I was able to say last year that "aside from the increase in treasury bills, there was no new direct borrowing from the Bank of Canada or the chartered banks during the year." During the current fiscal year, we shall have borrowed direct from the Bank of Canada and the chartered banks a net amount of $983 million. That is not all dangerous borrowing for the public has desired to hold considerable savings in cash. But most of it is borrowing which I would rather not have done. If the government borrows from individuals, the government spends the money and the individual does not. If the government borrows from the banks the government spends the money, but the spending of others is not reduced. We borrowed from the banks because we were unable to borrow as much as we needed from personal savings.

I tabled recently in the house a statement showing the sources of subscriptions to the three victory loans. They were divided between individuals and non-individuals. Non-individuals included broadly corporation investors. Individuals included individual persons, small non-profit enterprises and some small businesses. While the total subscribed by individuals increased with each loan, the proportion to the total fell off somewhat in the third victory loan.

I estimate that sales of war savings certificates and stamps will approximate $77 million, although I should add that redemptions have been heavier than they should have been. This compares with $85 million sold in 1941-42. Non-interest bearing certificates, which were made available to meet a special demand, showed a net decline during the year, redemptions exceeding new sales.

These are sobering facts because to the degree that the government has had to borrow from the banks rather than directly from personal savings, to the degree that the spending power of the government has been increased and the spending power of the public has not been reduced by an equal amount, we have contributed to the pressure on prices and on supplies of necessary products. The evidence is clear that we, as a people, must bend our efforts with renewed and persistent strength to the task of increasing savings and placing them in the service of the nation.

II

BUDGET FORECAST 1943-44 AND PROPOSALS

I have reviewed the financial events and operations of the year which is drawing to an end. I turn now to the year ahead and the measures which we propose.

The estimates for the coming year are already before the house. For non-war expenditures $610 million is required. The war estimates stand at $3,890 million as compared with estimated expenditures of $2,803 million under the war appropriation in the current year. The amount to be included in the Mutual Aid bill is $1,000 million, the same as was provided in the current year under the War Appropriation (United Kingdom Financing) Act. The estimated expenditures thus reach the great total of $5,500 million, an amount which is the dollar measure of our financial task for the year and of the national achievement in organizing for war.

To meet these requirements, it is estimated that, under the present tax laws total ordinary revenues for the fiscal year 1943-44 will be $2,561 million or after allowing $210 million for refundable taxes $2,351 million in net ordinary revenue. I shall place on *Hansard* a statement showing the details of the estimate and comparing it with the expected yields for 1942-43.

	1943-44 (millions)	1942-43 (millions)
Customs duties	$ 100	$ 118
Excise duties	130	142
Sales tax	225	230
War exchange tax	85	94
Other excise taxes	165	153
Income taxes—		
Personal	825	460
National defence tax	—	81
Corporate	300	350
Interest and dividends	26	27
Excess profits tax	550	455
Succession duties	18	14
Miscellaneous	7	12
	2,431	2,136
Non-tax revenue	130	114
Total ordinary revenue	2,561	2,250
Special receipts	40	59
Total revenue	2,601	2,309
Less refundable taxes	210	100
Net total revenue	2,391	2,209

The table shows that, assuming no tax changes, we anticipate declines in revenue from customs duties, excise duties, sales tax and the war exchange tax. On all these items, shortage of goods and difficulties of transportation will affect revenues adversely. Excise taxes other than the sales tax are expected to yield slightly larger revenues when the higher rates and new taxes enacted at the last session apply to a full year.

It is anticipated that the yield of the personal income tax will be $284 million higher because the higher rates of tax collection will be in effect for the full year and because of increasing incomes. The yield of the corporation income tax will probably decline somewhat as in the current fiscal year we moved forward the time of payment and consequently received somewhat more than one year's taxes. The yield of the excess profits tax is expected to be substantially higher, both because the higher rates enacted last year will be in effect for a full year and because profits before tax are apparently continuing to rise.

Expenditures of $5,500 million and gross revenues of $2,601 million will leave a deficit of $2,899 million to be met by new taxes and by borrowing other than by refundable taxes. The comparable estimated deficit for the current year is $2,162 million.

The objects to be achieved by our financial programme for the coming year are clear enough. I have set out the decisive facts with which that programme must grapple. What are the salient economic facts? First of all, we have reached a state of full employment, aside from local situations. Supplies that will be available to meet consumer demands in the coming year not only cannot be expanded but must be decreased. Imports will be harder to get and more expensive when we get them. Costs are pressing upward against the price ceiling, causing many producers to find it difficult to work beneath those ceilings. Demands continue to be made for increased wages, and labour costs have a tendency to rise despite all efforts to stabilize them. The purchasing power in the hands of the public is already excessive in relation to what there is available to buy and appears likely to grow more excessive. In short, we find that the forces making for inflation are present on a large scale. The pressure is held in check only by the rigour of our existing taxation, by the willingness of Canadians to save on an unprecedented scale, and by our price control and wage control.

These are the economic facts. The cardinal financial fact is that the proposed expenditures are a billion dollars in excess of those of the current year. Our expenditures will, apparently, amount to more than one-half our gross national production. Revenues, on the other hand, without new taxes, will amount, it is true, to substantially more than ever before in our history, but they will still fall far short of our expenditures, leaving a deficit in the absence of tax changes of $2,899 million.

How much of this deficit should we seek to cover by new taxation or higher rates? How much from increased personal savings lent to the nation?

There are important considerations to be taken into account. Already our tax rates are heavy. They are heavy in absolute terms. They are heavy even by comparison with other countries at war to-day. They are very heavy by comparison with all our pre-war standards except in the case of the sales tax and customs duties, where we have deliberately avoided increases. Moreover, there is an automatic increase in the income tax deductions at the source which must occur under present legislation as soon as we change from deductions in respect of 1942 incomes to those in respect of 1943 incomes. This arises from the credit given in the 1942 rates of deduction for national defence tax payments in the first eight months of that year. Consequently, our day to day rates of tax deductions will increase without adding anything to our tax legislation. Already, taxation has forced some groups to readjust radically their whole scale of living. The new scale of deductions will require changes in the position of others.

There are upper limits to what can be equitably obtained by an income tax, as I have endeavoured to explain a number of times in the past. A man's income and the number of his dependents are not alone a perfect measure of ability to pay. Many other circumstances enter into a complete assessment of his position. The higher we force our taxation, the more necessary it is that we take these other circumstances into account. It was for this reason that last year, when tax rates were raised steeply, we provided allowances for medical expenses and certain savings commitments. The extent to which we can make special provision for additional varying circumstances of this sort, however, is strictly limited. We cannot make our tax so complicated that the ordinary man cannot understand it. It must be simple if it to be clear to the vast majority who are subject to it. Furthermore, every additional complication, every additional allowance that we make, increases the difficulty of administration and the risk of arbitrariness in administration. Already, we have thrust huge burdens on officials of the income tax division. Faced as they are with the difficulty of obtaining experienced and trained personnel, it is remarkable that they have been able to carry through all the radical changes we have already thrust upon them. To ask them to assume administratively hopeless tasks would be to risk a breakdown in our whole income tax system. Consequently, there are now very serious barriers both in equity and in administration to substantial increase in the income tax at this time.

There are serious arguments to-day in favour of a very substantial purchase tax on all but the most essential goods and services. Such a tax would mop up a considerable amount of excess purchasing power, and would assist in securing the orderly distribution of scarce supplies. It would make those who will spend on non-essentials pay dearly for the privilege. Such expenditure in itself is evidence of ability to pay. However, there are several serious objections to such a plan. In the first place, there are not going to be enough really non-essential goods and services to provide much revenue unless either we apply such a tax also to what are fairly essential goods, or put a tax on at exceedingly high rates. Probably, we would have to do both if we were to get enough revenue to meet any large proportion of our prospective deficit. I do not feel prepared to do this. I don't believe there are many goods to-day which should in effect be reserved for those with the longest purses. That would be the result of putting very heavy taxes on such articles.

The financial programme for the coming year will be the government's programme only in the sense that the government has the responsibility of recommending it. In fact, it must be achieved by the willing and combined efforts of all the people of this country. In view of this fact and balancing the considerations I have outlined, I have reached the decision that the proper measures for achieving the financial results which must be achieved are: some improvements and alterations in the personal income tax to make more effective changes which were made last year, a plan for bringing our income tax collections up to date and, at the same time, increasing the current revenue, a number of increases in commodity taxes, and a renewed and extended programme for increasing personal savings. I shall also have a number of less important changes and modifications to propose.

The first and most important measure I wish to propose is that foreshadowed in the speech from the throne—the placing of our personal income tax on a pay-as-we-earn basis. In this way we will complete the transformation in our income tax begun with the enactment of the national defence tax in 1941 and carried last year to an advanced stage both in collecting a graduated tax at the source and in collecting as early as possible after the income is received on which the tax is assessed. I am proposing that beginning this year, 1943, the income tax currently collected at the source or paid in quarterly instalments, shall apply in respect of the tax to be assessed on the income of this current year, 1943. If parliament sees fit to put this proposal into effect, we shall then be on a fully current income tax basis. No one, speaking generally, will then be liable for large amounts of income tax on income he has earned in the past—except to the extent that adjustments in tentative tax deductions or payments must be made after the year's income is finally determined with accuracy.

The advantages of a system of current payment of tax such as I propose are now well known, so I need only remind the house of them. Under this plan, when a man's income falls off, his tax falls off with it; when his income rises, his tax rises with it. It enables us to avoid the lag in the payment of tax under our present system—a lag which now amounts to about eight months, substantially less than it was several years ago, but still a problem to those suffering or expecting to suffer a reduction in income. The difficulties in the present system are most serious in the case of those whose incomes cease or decline severely because they enter the armed forces, lose their jobs, retire or die. Advocates of such a plan have made most people very much aware of the personal problems created in such situations by income tax debt. With taxes at present levels, such problems are now very difficult ones for any who have not made provision in advance for their taxes.

For example, a young married man who has earned $40 a week during 1942 who wished to join the air force at the beginning of this year had to face the necessity of paying income tax of $282 on his civilian income of last year out of his much lower service pay this year. Again, if a professional man earning, say, $5,000 a year, should die and leave behind a wife and two children, they would be liable for perhaps $831 of income taxes, whether or not there was any estate. The wage earner who loses his job would in many cases have anything up to several hundred dollars of income taxes to pay during the succeeding six months or year — taxes on income he had probably spent while he was earning it. Anyone who looks forward to early retirement on a pension considerably lower than his current earnings faces an almost insuperable barrier. We do not wish such persons either to exhaust what savings they have set aside or to be forced to break the law.

There are other substantial advantages of a pay-as-we-earn plan. It enables us to make more effective use of collection at the source from earnings and to avoid many refunds and adjustments that would otherwise be necessary. Secondly, it will make it possible in future to adjust our income tax rates and collections more promptly when changes in economic or other circumstances make such adjustments desirable. In this way it will make the income tax a better instrument of fiscal policy in helping to maintain full employment.

It is to overcome the various types of difficulty which I have described, and to obtain the other advantages of having our taxes on a sound current basis that the government is proposing now to complete the transformation of our income tax system to a full pay-as-we-earn plan.

Under this new plan, all the deductions of tax made at the source during 1943 will apply in respect of the tax on 1943 incomes. Those who pay in quarterly instalments will pay such instalments in March, June, September and December of this year in respect of this year's income. These instalment payments will be based upon an estimated income and tax for this year, with safeguards to be provided against underestimates. In both cases, the correct amount of income will be determined at the end of the year and a final return will be filed on or before March 31, 1944, together with any amount required to make up the difference between the total deductions or instalment payments and the actual tax. If the taxpayer finds he has had too much deducted or has paid too much, he will claim a refund on his tax return. In making tax deductions at the source from salaries and wages, we shall aim at collecting up to 95 per cent of the total tax liability, rather than 90 per cent as we did in the deduction tables for last year. This will cut down the amount to be paid at the end of the year in filing the return.

I wish to make it quite clear that the new plan will require us to bring into effect as soon as possible the higher rates of tax deductions which would have gone into effect next September. The reason for this is relatively simple and I want it to be understood. During 1942, we collected national defence tax for eight months. This counted towards the total tax on the income of 1942. The tax deductions that we put into effect last September, and which are in effect now, were, therefore, made high enough to collect only the remainder of 90 per cent of the tax for 1942, that is, 90 per cent of the total tax less the amount already paid as national defence tax. Now it is proposed to collect the 1943 tax on which we have paid nothing by means of national defence tax in the past. Consequently, our deductions must be somewhat higher even though the tax rates themselves have not been altered. Let me assure all taxpayers, however, that they will receive full credit against 1942 taxes for what they paid as national defence tax in 1942. It will be no longer reflected in lower deductions from pay, but it will be credited toward the 1942 tax—and in some cases there will be some left over to be refunded or carried as a credit against future taxes. The new rates of deduction will go into effect for the first payroll period commencing after March 31.

These new deductions will also be slightly higher because we shall aim, as I have said, at collecting 95 rather than 90 per cent of the total tax by this method.

It will be difficult to put farmers on a pay-as-we-earn basis because it is so very hard for them to estimate their income in advance. We are proposing to give them as much latitude as possible by simply requiring them to pay two-thirds of their tax any time up to December 31—on the basis of a rough guess or calculation—and the balance when they file their final return in March of the following year. Higher agricultural incomes have now brought many farmers into the taxable income ranges, and I am glad to know that the Department of National Revenue is making special efforts to assist the farmer in reckoning his income and calculating his tax. After some careful consideration of the special problems faced by farmers in regard to income tax, I am proposing another special measure to assist them in overcoming the extreme variation in income to which they are frequently subject because of weather and other changes. Last year, the house approved a change in the income tax law enabling any business to carry forward a loss suffered in 1942 or any later year as a charge against profits in the following year. We propose now to enable a loss to be carried forward two years in the case of farmers—so that if a farmer suffered loss during 1942 he can charge that against the income from his farm during either 1943 or 1944.

In order to make the change to a complete pay-as-we-earn system of taxation on the income of 1943 and subsequent years, it is necessary to make some adjustments of the tax on 1942 income. If this is not done, we should have to pay a large part of the 1942 tax as well as the 1943 tax during this year 1943. If tax rates were substantially lower than they are, this overlapping would not be serious. With rates at their present high levels, we must avoid piling the unpaid portion of the 1942 tax liability on top of the current collections for 1943. This is the difficult problem of the transition to the pay-as-we-earn system. Nearly everyone has recognized the virtues of being on the pay-as-we-earn system. There has been far less agreement about the means of making the transition to this plan.

Fortunately we are in a better position to make this transition in respect of 1942 incomes in Canada than we would be in respect of any other year. We had already collected during 1942 eight months of national defence tax deductions from salaries and wages and four months of deductions on the new scale introduced last September. As a consequence, those whose 1942 income consisted of salaries and wages had already paid a substantial part of their total tax by the end of the year. This proportion varies from about 33 per cent in case of fairly high incomes up to more than 100 per cent in the case of some lower incomes. The proportion paid in any particular case depends on the income, the number of dependents, and whether or not the taxpayer had savings commitments to set against the refundable part of his tax. In general, the higher the income the smaller the proportion of tax collected by the end of 1942, and the less of the refundable part of the tax that is covered by outside savings commitments, the smaller the proportion of the total tax already collected.

It should be remembered in considering this matter that our deduction plan was only intended to collect up to 90 per cent of the full tax, leaving 10 per cent to be settled by the taxpayer himself at the end of the year, against which any allowances for charitable contributions, special medical expenses, etcetera, could be made. This was also intended to leave a margin of safety to prevent over-deduction for those whose earnings varied or changed during the year.

Let me give the house a few examples to show where various types of persons stood at the end of 1942 in regard to the payment of their tax. A single person earning $30 a week through the year will have had $2.10 a week of national defence tax deducted for each of 35 weeks—and then $5.37 a week for the remaining 17 weeks, assuming that he was not able to offset the refundable portion of his tax against other specified savings commitments during 1942. Consequently, he had paid during 1942 a total of $164.79 against his total tax liability of $391.20. That is to say, he was 42 per cent paid up. A married man with two children earning $200 a month will have had 8 months national defence tax deduction of $6.66 deducted. In the last four months he will have had four monthly deductions of $24.87, if he is liable for the refundable portion of the tax. Consequently, he will have paid a total of $152.76 out of his total 1942 tax of $390.80, that is, 39 per cent. If this man had paid, say, life insurance premiums of more than $195.40 during 1942, his monthly tax deductions from September to December would have been $10.21, and consequently he would have paid a total for the year of $94.12. This would be 48 per cent of the tax for which he is liable on his 1942 income—bearing in mind that he is not required to pay the refundable portion. In the same way, it could be shown that a married man with two children and having a salary of $500 a month would have paid 38 per cent of his tax by the end of the year, assuming he had the savings portion of his tax covered by other savings commitments.

The case is somewhat different for those whose incomes are not made up very largely of wages and salaries. They are required to pay their tax in four quarterly instalments, based upon an estimate of their income for 1942. The first of these instalments was payable on or before October 15 and the second on or before January 15 of this year. Consequently, such persons had paid roughly half their taxes by the middle of January except to the extent that they underestimated their income and tax.

In summary then, it appears that most people had paid about half their tax or more by the beginning of this year; the remainder had paid between a third and a half of their tax, depending on circumstances.

In order to put the pay-as-we-earn plan into effect, we wish to have all tax deductions made during 1943 and all quarterly tax payments subsequent to that of January 15, 1943, apply in payment of 1943 taxes alone. We wish to avoid, so far as it is practicable, overlapping the payment of 1942 taxes with the current payment of 1943 taxes. Some overlapping for many people was to be expected in any case because we aimed at collecting only 90 per cent of the tax by deductions at the source, and the balance was to be paid at September 30—at the time deductions for 1943 taxes were to be taking place.

To put tax payments on a full pay-as-we-earn basis and avoid unreasonable overlapping of two years' taxes, the government has decided to propose that only one-half the full tax liability in respect of 1942 income shall now be payable. The tax liability will be reduced by one half in the case of earned incomes. For investment incomes half the 1942 liability will be deferred until the death of the taxpayer. Investment income of not more than $3,000 will be treated in the same way as earned income.

There is good reason to distinguish between earned income and investment income in making this adjustment to the pay-as-we-earn plan. The reasons for making the change arise almost entirely from the side of earned income. We wish to overcome the tax difficulties of those whose earnings cease or are reduced because they retire or die, or because they enter the armed forces or lose their jobs. In these circumstances there are much lower earnings or no earnings out of which to pay the tax due on past earnings. In the case of investment income there is almost always capital out of which such remaining taxes can be paid following the death of the taxpayer—or in other circumstances. Moreover most investment incomes are not so likely to decline rapidly or to cease, as are earned incomes. There is not such great need, therefore, to tax investment income on a current basis. Indeed the question of a change would never have arisen, I feel sure, if only investment income were concerned. It is not practical, however, to put one type of income on a current basis and not the other. Therefore we must make the shift in the collection of tax on investment income even though it is not required on its own merits. In doing so, however, we do not need to relieve the taxpayer, or his estate, of a tax which he or the estate is quite able to meet out of capital if not out of income. The course of action proposed is well in accord with the principle of taxing on the basis of ability to pay.

What we are proposing to do in respect of investment income is in effect to take the whole series of future tax payments to which it will be subject and bring them forward for earlier payment, including the unknown income tax that would be due on the death of the taxpayer, and to take the first such payment—50 per cent of the 1942 tax—and put it at the other end. Thus we substitute a definite and known liability at the time of death for an unknown and uncertain one. It is something which a man may, if he wishes, prepare for and even insure against. We are not adding to the burden on investment income—we are simply rearranging it. We are also withholding from investment income, which does not need it, the relief which we propose to give in the case of earned income and which takes effect at the time such income ceases or declines.

It is proposed to treat investment incomes up to $3,000 in the same way as earned income—forgiving 50 per cent of the tax instead of deferring it. This will enable us to avoid having to keep track over a long period of a large number of small accounts. It will afford a measure of relief in the future to those whose investment income really represents the fruits of earlier earnings or the protection against want which a man has provided for his dependents. It will also enable us to avoid what would otherwise be discrimination between those who have provided for their own old age by savings in the form of modest annuities and those whose employers have provided for them by pensions or superannuation payments which are included in earned incomes. Larger annuities are comparable with other forms of investment income, rather than with pensions, and will be left in the same position as at present except insofar as they benefit from the adjustment in respect of the first $3,000.

To illustrate the effects of the proposed means of dealing with the tax on 1942 incomes, I would like, with the permission of the house, to place on *Hansard* at this point two tables of figures, one showing the situation in respect of earned incomes of various amounts and the other showing that in respect of investment incomes. These the house and the public can examine at length.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
1. Single without dependents										
$	$	$	$	$	$	$	$	$	$	$
700	40	20	24	2	26	24	....	24	*6	*14
850	116	58	29	23	52	29	7	36	6	*7
1,000	172	92	34	38	72	34	15	49	14	*3
1,250	267	167	59	61	120	59	31	90	14	*6
1,500	367	247	71	83	154	71	48	119	30	4
1,750	471	331	82	111	193	82	70	152	43	13
2,000	601	441	94	143	237	94	97	191	63	29
2,250	713	533	105	175	280	105	122	227	76	40
2,500	826	626	117	209	326	117	149	266	87	47
3,000	1,064	824	140	273	413	140	201	341	119	71
4,000	1,594	1,274	187	416	603	187	320	507	194	130
5,000	2,128	1,728	233	561	794	233	441	674	270	190
7,500	3,570	2,970	350	954	1,304	350	774	1,124	481	361
10,000	5,112	4,312	467	1,378	1,845	467	1,138	1,605	711	551
20,000	11,829	11,029	933	3,238	4,171	933	2,998	3,931	1,744	1,584
30,000	19,196	18,396	1,400	5,292	6,692	1,400	5,052	6,452	2,906	2,746
50,000	34,963	34,163	2,333	9,711	12,044	2,333	9,471	11,804	5,437	5,277

* Minus amounts will be allowed as credits or refunds.

† It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.-Aug.	Income tax Sept.-Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.-Aug.	Income tax Sept.-Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
2. Married persons without other dependents										
$	$	$	$	$	$	$	$	$	$	$
1,250	50	25	42	4	46	42	....	42	*21	*30
1,300	100	50	44	15	59	44	....	44	* 9	*19
1,500	217	109	50	46	96	50	15	65	13	*11
1,750	321	161	59	74	133	59	27	86	27	* 6
2,000	431	231	67	102	169	67	44	111	46	4
2,250	541	316	75	134	209	75	67	142	62	16
2,500	651	401	83	168	251	83	93	176	75	25
3,000	884	584	100	232	332	100	142	242	110	50
4,000	1,364	964	133	365	498	133	245	378	184	104
5,000	1,878	1,378	167	508	675	167	358	525	264	164
7,500	3,270	2,520	250	898	1,148	250	673	923	487	337
10,000	4,762	3,762	333	1,318	1,651	333	1,018	1,351	730	530
20,000	11,279	10,279	667	3,161	3,828	667	2,861	3,528	1,811	1,611
30,000	18,446	17,446	1,000	5,200	6,200	1,000	4,900	5,900	3,023	2,823
50,000	33,813	32,813	1,667	9,588	11,255	1,667	9,288	10,955	5,651	5,451

* Minus amounts will be allowed as credits or refunds.

It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECT OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON WAGES AND SALARIES

1942 Income†	Tax Liability on 1942 Income (Before adjustment)		Amount Deducted from Wages or Salary in 1942						Amount Remaining to be Paid i.e., 50% of unadjusted tax liability less total deducted from wages or salary in 1942	
			Person with no savings credits			Person with full savings credits				
	Person with no savings credits	Person with full savings credits	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Nat. Defence tax Jan.–Aug.	Income tax Sept.–Dec.	Total (N.D.T. Income Tax)	Person with no savings credits	Person with full savings credits
3. Married persons with two dependents										
$	$	$	$	$	$	$	$	$	$	$
1,250	32	16	15	5	20	15	....	15	* 4	* 7
1,300	35	18	17	5	22	17	....	17	* 4	* 8
1,400	42	21	20	6	26	20	....	20	* 5	*10
1,500	49	25	24	7	31	24	....	24	* 6	*11
1,750	105	53	32	20	52	32	5	37	1	*10
2,000	215	107	41	47	88	41	17	58	20	* 4
2,250	325	163	48	78	126	48	31	79	36	2
2,500	435	217	57	111	168	57	46	103	49	5
3,000	668	334	73	176	249	73	76	149	85	18
4,000	1,148	668	107	308	415	107	164	271	159	63
5,000	1,662	1,062	140	452	592	140	272	412	239	119
7,500	3,054	2,154	223	842	1,065	223	572	795	462	282
10,000	4,546	3,346	307	1,261	1,568	307	901	1,208	705	465
20,000	11,063	9,863	640	3,106	3,746	640	2,746	3,386	1,786	1,546
30,000	18,230	17,030	973	5,145	6,118	973	4,785	5,758	2,997	2,757
50,000	33,597	32,397	1,640	9,532	11,172	1,640	9,172	10,812	5,626	5,386

* Minus amounts will be allowed as credits or refunds.

† It is assumed that incomes of less than $2,000 per year are paid weekly, and higher incomes monthly for the purpose of calculating deductions.

TABLE SHOWING EFFECTS OF PROPOSED ADJUSTMENT OF 1942 TAX LIABILITY ON INVESTMENT INCOMES

1942 Income	Tax Liability on 1942 Income (Before adjustment)		Adjusted Liability on 1942 Income; Payable During 1942 and 1943*		Deferred Liability Due at Death of Taxpayer	
	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits	Persons with no savings credits	Persons with full savings credits
			Single Persons Without Dependents			
$	$	$	$	$	$	$
700	40	20	20	10		
850	116	58	58	29		
1,000	172	92	86	46		
1,250	267	167	134	84		
1,500	367	247	184	123		
1,750	481	341	240	170		
2,000	621	461	310	230		
2,250	743	563	372	282		
2,500	866	666	433	333		
3,000	1,124	884	562	442		
4,000	1,694	1,374	847	687	212	172
5,000	2,268	1,868	1,134	934	454	374
7,500	3,810	3,210	1,905	1,605	1,143	963
10,000	5,452	4,652	2,726	2,326	1,908	1,628
20,000	12,569	11,769	6,284	5,884	5,342	5,002
30,000	20,336	19,536	10,168	9,768	9,151	8,791
50,000	36,903	36,103	18,451	18,051	17,344	16,968
100,000	82,337	81,537	41,168	40,768	39,933	39,545
500,000	474,304	473,504	237,152	236,752	235,729	235,331
			Married Persons With no Other Dependents			
$	$	$	$	$	$	$
1,250	50	25	25	12		
1,300	100	50	50	25		
1,500	217	109	109	54		
1,750	331	165	165	83		
2,000	451	251	225	125		
2,250	571	346	285	173		
2,500	691	441	345	220		
3,000	944	644	472	322		
4,000	1,464	1,064	732	532	183	133
5,000	2,018	1,518	1,009	759	404	304
7,500	3,510	2,760	1,755	1,380	1,053	828
10,000	5,102	4,102	2,551	2,051	1,786	1,436
20,000	12,019	11,019	6,009	5,509	5,108	4,683
30,000	19,586	18,586	9,793	9,293	8,814	8,364
50,000	35,753	34,753	17,876	17,376	16,804	16,334
100,000	80,187	79,187	40,093	39,593	38,891	38,406
500,000	464,154	463,154	232,077	231,577	230,685	230,188
			Married Persons With Two Dependents			
	$	$	$	$	$	$
1,250	32	16	16	8		
1,300	35	18	18	9		
1,400	42	21	21	10		
1,500	49	24	24	12		
1,750	115	57	57	29		
2,000	235	117	117	59		
2,250	355	177	177	89		
2,500	475	237	237	119		
3,000	728	364	364	182		
4,000	1,248	768	624	384	156	96
5,000	1,802	1,202	901	601	360	240
7,500	3,294	2,394	1,647	1,197	988	718
10,000	4,886	3,686	2,443	1,843	1,710	1,290
20,000	11,803	10,603	5,901	5,301	5,016	4,506
30,000	19,370	18,170	9,685	9,085	8,716	8,176
50,000	35,537	34,337	17,768	17,168	16,702	16,138
100,000	79,971	78,771	39,985	39,385	38,786	38,204
500,000	463,938	462,738	231,969	231,369	230,577	229,981

* This amount is one-half the unadjusted total liability. The quarterly instalments paid in respect of this income in Oct. 1942 and Jan. 1943, together with deductions at the source, will presumably already have covered most of this liability. The residual, if any, must be paid during 1943.

[Mr. Ilsley.]

I will also give the house a few examples now to illustrate how the proposals work out. As a first example, let us recall the case I mentioned a few moments ago of the single man or woman earning $30 a week during 1942 and without credits to offset his refundable tax. Out of a total liability of $391.20, he had paid $164.79 by the end of the year. Cutting his liability in half leaves him with $30.81 still to pay. Of his reduced total liability of $195.60, $62.40 is to be refunded after the war and the balance, $133.20, is the net tax. If this man in question had been paying life insurance premiums or other types of contractual savings relieving him of the liability for refundable tax, he would only have about $5 left to pay when he files his return. Our second example was a married man with two children, earning $200 a month. He had paid, you will recall, $152.76 out of a total tax of $390.80, if he was liable for the refundable portion of the tax. Now that his liability is cut in two, he will only have $42.64 left to pay. If he had insurance premiums which looked after the refundable portion of his tax, he would only have $3.58 left to pay. Going higher up the scale, and assuming for these higher incomes that the refundable portion of the tax is covered by other savings commitments, we find that a married man with two children earning a salary of $5,000 had a total liability in respect of 1942 taxes of $1,062, of which $412 had been deducted at the source. When his liability is cut in half, this will leave him $119 of tax remaining to be paid. Similarly a $10,000 a year man will have paid $1,208 out of a total liability of $3,346, and when the liability is adjusted, he will have $465 to pay.

In the case of investment income we may reasonably assume, I think, that the two quarterly instalments together with deductions at the source have accounted for most of the 50 per cent liability that must be paid immediately. This is the end of the matter so far as investment incomes of less than $3,000 are concerned. For those of more than $3,000 we must take half of that proportion of the tax which corresponds to the proportion of income constituted by investment income in excess of $3,000. This amount is deferred and will be due at the death of the taxpayer. In the case of a $10,000 investment income the additional deferred payments will amount to $1,908; in the case of a $20,000 investment income they will be $5,342; for a $100,000 investment income they will be $39,933; and for those very few who enjoy investment incomes of more than this amount, they will be correspondingly greater. The figures I have quoted as examples are those for a single person having no savings credits—in all other cases the amounts will be lower.

It will be observed that the amounts remaining to be paid this year in respect of 1942 tax liabilities are relatively small. For the majority of taxpayers they will be substantially less than the 10 per cent of the tax which it had been anticipated would be payable next September. In a great many cases, those with relatively small incomes will be entitled to a refund of some of the tax which has already been deducted at the source. The amount of these refunds will be very small in most cases, rarely exceeding $15, and I would hope that most of the taxpayers will see fit to leave these amounts as credits toward any amount owing on their 1943 tax at the end of the year. Those with incomes in the middle brackets, let us say from $2,000 to $5,000 per year, will find the amounts remaining to be paid relatively small if they have savings commitments that look after the refundable portion of their tax. If they must pay the refundable portion of their tax, the amount remaining will be somewhat more than the 10 per cent they were expecting to pay in September and consequently they will need to make an increased effort to provide this additional amount of forced saving, at the same time that they are paying their 1943 tax. In order to enable them to make these payments, it is proposed to require only one-third of the remaining outstanding amount to be paid at the time the return is filed, which will be June 30th, and the balance may be paid any time during the remaining six months of the year. For those with salaries in excess of $5,000 or $10,000 a year, the amounts remaining to be paid of the 1942 tax will in all cases, I believe, exceed the 10 per cent which it was expected would be due in September. I believe, however, that it is not unreasonable to leave this relatively slight extra burden on such persons at this time, bearing in mind that we are not making any increase in the rates of tax.

The adoption of the pay-as-we-earn plan, together with the other changes associated with it, will increase our revenues in the next fiscal year and in subsequent years. It may seem strange at first sight that a rearrangement which involves cancelling some tax liabilities and making no increase in tax rates could somehow increase our tax revenues. The reason is that we replace the cancelled liabilities by bringing forward the taxes to be paid in all future years.

The effects of these changes upon revenue in the new fiscal year, 1943-44, will be an increase of about $115 million in our receipts from personal income taxes, of which roughly $15 million will be refundable after the war.

Some of this increase will arise from the fact that the higher scale of deductions from earnings will go into effect in April instead of September. Another part will result from the fact that 1943 incomes will be higher than those in 1942. There will be some increase due to the payment of the remaining liability in respect of 1942 incomes in the same year that 1943 taxes are paid. I should add that several minor adjustments in income tax which I will mention shortly will mean the loss of some revenue, perhaps $10 million in all, and, consequently, the net increase in our income tax revenue in this new fiscal year is estimated at about $105 million in all, of which $15 million will be refundable.

The next proposal which I wish to mention is designed to clear up an anomaly which is certain to be vexatious to those affected and might lead to further undesirable results. It may be recalled that there is a provision in the law that the tax shall not reduce the income of a single person below $660 per year, nor that of a married person below $1,200 per year. The effect is that the tax, for example, on $1,200 of income for a married person is nothing, while that on $1,300 is $100, of which $50 will be refunded after the war. Thus there are ranges both above the $660 exemption and the $1,200 exemption over which in effect the tax, including the refundable portion absorbs every extra dollar added to income. This range extends from $660 per year to $733 per year in the case of single persons and from $1,200 per year to $1,362 per year in the case of married persons with no dependents. This high rate of tax on additional earnings over these ranges has not been effective this year in the deductions made from wages and salaries because at these levels of income the adjustments arising from the national defence tax have been substantial. Hence, it has not, up to date, so far as I know, been the cause of much difficulty or complaint nor has it been noted by many persons. However, the new table of deductions which must be put into effect in April would reflect fully this anomaly and the removal of incentive in these income ranges might have substantial and undesirable results. In order to maintain incentives at a time when it is desired to ensure so far as possible that everyone will stay at work and put his whole effort into work, I am proposing that we change this border-line provision. The new formula I am suggesting is that the tax in the ranges affected shall not be greater than two-thirds of the amount by which the income exceeds $660 in the case of single persons and $1,200 in the case of married persons. Under this arrangement, any additional dollar of income in this border-line range will go one-third in cash to the recipient, one-third in tax and one-third in refundable tax. This makes the incentive much greater than it is under the present formula, particularly for those who mistakenly attach little importance to the refund feature. This mistaken attitude may be based on the fact that they have not as yet received any form of security representing the taxes refundable to them. However, I have repeatedly stated and now wish to reiterate that within a reasonable time after the tax liability for 1942 is established and discharged, the taxpayer will receive a receipt or certificate covering the refundable portion of the tax which will be just as binding an obligation of the dominion as a victory bond or a war savings certificate. I would like to take this opportunity to emphasize that the refunding of this tax to those entitled to it is one of the most certain acts of any post-war government that I can imagine. Not only does the whole credit of the dominion stand behind this undertaking to repay but it would be political suicide for any government, however radical or however reactionary, to default on an obligation due to the mass of the wage-earners of the country.

I have two minor additions to propose to the list of those savings commitments which are recognized as alternative to the payment of the refundable portion of the tax. The first addition is principal payments on a mortgage on the home of the taxpayer when the property is held in the name of the wife or husband of the taxpayer. Last year, we discussed this situation and I was not prepared to include such payments as I believed that such arrangements of family property were artificial and were very frequently intended to relieve the head of the household of financial responsibilities which he should be prepared to carry in his own name. Since then, I have had my attention drawn to a great many types of cases where there were other good reasons for having the property in the name of the wife of the taxpayer and I do not now believe that there is any serious objection to recognizing such arrangements. It has also been found that quite a number of people have transferred property or transferred the mortgage from the wife's name to the taxpayer's name in order to bring them within the law. These transfers are relatively expensive in many cases and in the province of Quebec they are not possible. Since no important purpose is served by encouraging such transfers during the years in which our refundable tax is in effect and since it is inequitable to have a tax which can be escaped in one part of the country but not in another

[Mr. Ilsley.]

I am suggesting that we now recognize these principal payments on a mortgage when title to the property is held in the name of the consort of the taxpayer as well as when title is in the name of the taxpayer himself.

The second addition to the list of recognized savings commitments concerns Dominion annuities. Last year, there was considerable discussion as to whether or not Dominion annuities should be included. I did not believe they should be included because they did not fall within the general definition of those types of contractual savings which we wished to recognize. The principle on which we were working was that we should include only savings contracts which could not be altered without substantial loss or forfeiture to the taxpayer. In the case of Dominion annuities, the payments can be postponed at relatively small cost, since all that is involved is the difference in interest rates on the annuity and on the refundable portion of the tax. During the past eight months in which the law has been in effect, I have found that a great many of those having annuity payments to make have found it exceedingly difficult to understand this important principle on which we have been operating. However there is a degree of loss or forfeiture which becomes important for those whose annuities are about to mature. In view of this, and the difficulty of making the principle clear to the large number of small annuity holders I am recommending that contractual annual payments for the purchase of Dominion government annuities shall not be excluded from the list of recognized offsets against the refundable portion of the tax.

I have a number of relatively minor amendments to the income tax which I shall mention only briefly. One such amendment is intended to clarify the position of Canadian employees of Canadian companies who are temporarily engaged abroad on war work. There is some doubt as to the residential status of these employees, particularly single men, under the act as at present drawn up and it is intended to make it clear that they are taxable. There will be other changes in the wording of several sections of the act which will be made clear in the bill and which are intended to strengthen the law against possible evasion. Another provision will extend the time allowed to corporations in filing their income tax return from four months to six months after the close of their fiscal year. They are now allowed six months to pay their tax and in view of the shortage of accountants at present, it is considered desirable to permit an additional two months for the complicated work of making up the tax returns of corporations. I shall have several other minor changes to propose in regard to the making of returns and the penalties involved for those failing to make complete returns.

There is an important amendment to be made in regard to the provisions for special depreciation allowances granted for war purposes. It will be recalled that these special depreciation allowances have been permitted in the case of capital invested for essential war purposes either in cases approved by the war contracts depreciation board or in those approved by the governor in council under the terms of the War Exchange Conservation Act. Where these special depreciation allowances have been granted it has been generally understood by all the parties concerned that the plant and equipment to be depreciated in this way will have very little market value at the close of the war. It is desirable to safeguard the crown in the occasional case which may arise where such property proves to have an unexpected market value after the war. It is therefore proposed that when immovable assets have been depreciated in this way and later sold for more than their depreciated value any excess of such sales value over the depreciated value shall be applied to reduce the special depreciation already taken in respect of such assets. As a further safeguard against fictitious sales or sales between related corporations, it is proposed that when assets which have been written down by means of either special or ordinary depreciation are sold by a company, for example, to another company in which the first has an interest, then the second or purchasing company will be restricted in depreciating such assets further. This is a complicated matter to try to put briefly in a budget speech, and I refer any person desiring further information to the resolution dealing with this measure which I shall table before resuming my seat.

The members of the house will recall the difficult problems which have arisen in regard to the exemptions from taxation that have been granted to various classes of members of the armed services. Considerable study has been given to this question since the last session of parliament in the hope that a way could be found to remove the various anomalies which were still present even after the improvements which we effected last year. The problem created by the exemption from taxation of officers as well as men who are overseas while officers in Canada (except under certain circumstances) are taxable has proved to be such a fundamental difficulty that no simple solution is possible. We cannot overcome this distinction between officers at home and abroad unless we are prepared either to place a substantial tax on those abroad or relieve those at home from income taxes which they should bear just as well as civilians. I believe that the house will see objections to either of these courses. Consequently, I am not proposing that we change the tax status of officers overseas nor that of officers at home, except to the extent that I shall mention in a moment. I am proposing, however, that we shall recognize a middle group, constituted of those serving in the western hemisphere outside of Canada. Officers serving in this area will be liable to one-half the rate of tax in respect of their remuneration, excluding subsistence allowances. Heretofore they have been exempt, as they have been considered as serving abroad, but because of the way in which the war has developed I think it is reasonable to make a distinction between those who are in the United Kingdom or elsewhere across the ocean and those who are in Newfoundland, the West Indies, Labrador or Alaska.

Last year, it was provided that the tax payable by commissioned officers in the armed services, apart from the refundable portion of the tax, should not be greater than the excess of their pay over $1,600 in the case of single men, nor the excess of pay and allowances over $1,600 plus the similar allowances appropriate in the case of a warrant officer for married men. This provision was intended to overcome the anomalies created by the fact that commissioned officers were taxable, while senior non-commissioned officers were not, and the tax frequently had the result of reducing the net income of a senior man below that paid to his junior. This provision overcame most of the problem but it has been by no means perfect. It still leaves the compulsory savings portion of the tax effective in reducing an officer's retained cash income below that of a warrant officer in certain cases. Moreover it reduces substantially the difference between the net income of the junior commissioned officers and those immediately above them in rank, leaving no benefit to be gained or very little from promotions in this range. We have worked out now an improved method of making adjustments of this character which is free from the objections in the present measure. The new proposal involves a change in the form of the provision from a limitation on the tax to that of a credit against the tax. It is proposed as well that the line between taxable and non-taxable members of the forces will be drawn on a basis of income rather than on the basis of commissioned rank.

Under the new arrangement, those members of the forces receiving pay in excess of $1,600 a year will be liable for tax, whether commissioned officers or warrant officers, unless they are exempt because serving abroad, or because their duties are normally performed in aircraft or afloat. They will receive, however, a credit toward their tax equal to the tax payable on an income of $1,600 for single persons, or on $1,600 plus the appropriate dependents' allowance for those with dependents. This tax credit will be reduced, however, by the proportion which the excess of the service income of the officer above $1,600 (or above $1,600 plus allowances in the case of officers with dependents) bears to $1,600 (or $1,600 plus allowances). This will result in the tax credit being limited to those within the pay range of $1,600 to $3,200. Let me give an example to show how this works—taking the case of a single man for the sake of simplicity. A single lieutenant receives pay of $1,825. The tax paid by a single man on an income of $1,600 is approximately $407. For the lieutenant's case we must reduce this by the fraction formed by $1,825 less $1,600—that is, $225—over $1,600. That reduces the credit by 14 per cent, leaving an effective credit of $350. His tax before the application of this credit would be $522 but the credit will reduce it to $172, of which $86 will be savings. Under the present arrangement this lieutenant would pay a tax of $371, of which $146 is savings. It can be seen that this provision will chiefly benefit junior officers and officers with several dependents. It will bring into the taxable category a few warrant officers whose pay, including trades pay, exceeds $1,600. The proposal has the great advantage of providing a gradual application of the tax in such a way as not to disturb unreasonably the pay differential between various ranks.

The new arrangement for taxing at half rates those in the western hemisphere outside of Canada will help to remove some of the anomalous comparisons between persons serving in certain areas of Canada and paying tax and those serving across the boundary line or the Strait of Belle Isle and being exempt from tax. There is another anomaly which can be removed without exempting all administrative and training officers at home, or taxing officers abroad. This is the sudden reduction in income faced by an officer brought home from service abroad, which occurs because he thereby becomes liable to tax. It is proposed that such an officer returning to Canada after having served on the strength of a unit overseas shall be exempt from tax for a period of six months, or a period equal to the time he served overseas if that was less than six months. This will give returning officers an opportunity to adjust themselves to the new circumstances.

Included in the income tax proposals are a number intended to encourage the search for new sources of oil in Canada during the next two years. The government recognizes the urgent necessity under present emergency conditions of expanding our oil production and, if possible, of discovering new oil-producing areas in various parts of Canada. Success in the search for oil depends upon a combination of experience, skill and good judgment, as well as capital and good luck; it is essential therefore to bring into the search all we can of those with the necessary skill and experience. We desire to remove so far as possible any barriers which taxation may impose in the way of this search for oil. Several of the proposed measures can be put into effect by regulation but I wish to inform parliament and the public at once of our intention to apply them. We propose to revise the schedule under which pre-production expenses of any oil well may be written off against the income from it. The new schedule will be 40 per cent in the first year, 30 per cent in the second, 20 per cent in the third, and the remaining 10 per cent in the fourth. It will not be necessary to take all of these amounts in the years specified, and any amounts not used may be carried forward. In the case of wells commenced—"spudded in" I believe is the correct term—between January 1 of this year and March 31 of 1945, pre-production expenses may be written off as rapidly as the operator desires. The third change to be made by regulation is an increase from 15 per cent to 25 per cent in the depreciation rate to be applied to all depreciable assets used in oil production, including oil drilling equipment. Fourthly, it is proposed that a special wartime depletion allowance of 33⅓ per cent instead of the present 20 per cent be permitted in respect of royalty payments received by investors from wells spudded in in the period January 1, 1943, to March 31, 1945.

There are two other proposals to encourage oil production that will require legislation. It is proposed that companies formed for the purpose of exploration and drilling for oil will be allowed to accumulate exploration costs incurred during the period January 1, 1943, to March 31, 1945, and to write off such expenses against the income produced from any well which they may find. Secondly, it is proposed that all exploration costs, including geological and geophysical expenses incurred during the period from January 1, 1943, to March 31, 1945, and all off-property drilling expenses of dry wells which had been spudded in during this period shall be allowed as an expense or deduction against the current income of companies whose principal business is the production, refining or marketing of petroleum or its products. The tax saving so obtained will be limited to 40 per cent of the expenditures involved.

In addition to oil, the government wishes to encourage the search for new base metal and strategic mineral deposits, which continue to be urgently required for war purposes. It is therefore proposed to renew the present provision of the law, enacted last year, regarding amounts invested by individuals in prospecting syndicates searching for base metals and strategic minerals. Instead of renewing the corresponding provision in respect of mining companies sending out their own parties, it is now proposed to allow companies engaged in the mining of metalliferous and strategic minerals to write off exploration and prospecting expenses incurred in prospecting anywhere in Canada for base metals or strategic minerals. In this case, as in the case of oil, the saving in tax will be limited to 40 per cent of the expenditure.

As I have already indicated, the proposed changes in commodity taxes are not numerous and are such as are dictated not only by the need for revenue but also by the facts in respect of particular trades and revenues.

In order to make clear the proposals I have to make relating to imposts on liquor, it will first be necessary for me to give the house some background in regard to certain representations received from provincial governments in regard to their revenues from liquor sales. The dominion's liquor restriction programme was announced on December 16 last and provided, inter alia, for reductions of 30, 20 and 10 per cent in the quantity of spirits, wines and beer, respectively, available for sale during the twelve months beginning November 1, 1942, as compared with the quantity made available during the preceding twelve months. On December 17 I issued a statement expressing the hope that the new regulations would not financially embarrass the provinces, particularly as certain measures of adjustment were open to them. However, requests were received from certain provincial governments for a conference in order to discuss the effect of the restrictions on provincial revenues. This conference was held on January 28 and resulted in requests from representatives of most of the provincial governments that the dominion should make up to them any loss in revenue from liquor sales and also from motor vehicle licences which they might suffer in future as compared with their receipts from these sources in some base year. Varying base years were suggested by different provinces—the fiscal year 1941-42, the calendar year 1942, the year ending October 31, 1942, and the fiscal year 1942-43. The provinces were asked to submit their representations in writing and, while these submissions have not as yet been received from all provinces, we have given very careful consideration to such as have been received as well as to other pertinent data and are prepared to recommend a programme which we believe should accord with the equities of the situation as a whole and meet the reasonable needs of the provinces.

I am not so optimistic as to assume that it will fully satisfy all provincial governments, but we who are charged with responsibility for financing war expenditures of the colossal magnitude which I have described must never forget that there is but one tax-paying public in Canada, which pays taxes both to the dominion and to the provinces, and that, particularly under present conditions, there is an overriding obligation on all governments to avoid extracting from the pockets of the people any funds that are not absolutely necessary. What we propose, therefore, is (1) to levy an additional excise duty of $2 per proof gallon on spirits, with a corresponding increase in the duty on imported spirits to which I shall refer later, and (2) to guarantee to any province the revenues it received from all alcoholic beverages during the twelve months ending June 30, 1942, provided it is willing to increase the retail price of the spirits it sells by an amount at least sufficient to absorb our extra levy of $2 per proof gallon and an additional amount equivalent to $2 per proof gallon for the benefit of the province itself.

Let me explain the reasons for the main aspects of this proposal so that its full significance may be clear to the house. Obviously we believe that spirits can stand an additional levy of $4 per gallon; only 70 per cent of the quantity sold in the basic twelve months will be available for sale in any future 12-month period and that quantity will be sold almost as readily with the $4 increase as without. Indeed, the higher price should definitely ease the difficulties experienced by the provinces in rationing the smaller available supply. If all the available supply can be sold at the higher price and if the provinces thus have it in their power to offset their possible loss of revenue by a price adjustment, it would be unthinkable that this reasonable and appropriate solution of the problem should be overlooked and, instead, the dominion should be forced to accept an additional burden on behalf of the taxpayers of the country as a whole.

It will also be noted that the guarantee we propose to give will be based on provincial liquor revenues for the twelve months ending June 30, 1942. Had we not also been making a proposal, which I shall explain a little later on, to change the basis of levying customs duty on imported spirits, it might have been appropriate to consider applying a guarantee to revenues for the twelve months ending October 31 last. However, this other proposal, coupled with the reduction in the strength of spirits to not more than 30 underproof, will increase the revenues of the provinces in two ways, first, by reducing the amount of customs duty payable on imported spirits, and secondly, by increasing the number of bottles per proof gallon available for sale. We believe that the increased revenues obtainable in these two ways will be sufficient to compensate the provinces for having their liquor revenues guaranteed on the basis of the period ending on June 30, 1942, rather than the period ending on October 31, 1942.

As a result of this suggested programme, the provinces will be assured of a minimum revenue equal to, or nearly equal to, the highest annual revenue they have ever obtained from liquor sales, and, in addition, will have the possibility of enjoying an increase in that revenue as a result of higher retail prices and the savings in customs duties on imported spirits. I am hopeful that the guarantee should not cost the dominion anything and, if this proves to be the case, it will be as it should be, as I am sure the house and the country would wish it to be.

We gave very careful consideration to whether we should guarantee provincial revenues from motor vehicle licences. The provinces had requested this on the ground that such revenue was likely to fall off substantially because of dominion restrictions on gasoline and rubber tires and also because the new liquor control regulations were likely to cause a substantial falling off in their most expansible source of revenue. However, it is the war, and not the dominion government, which is responsible for the restrictions on gasoline and rubber, and the provinces cannot expect to be protected against every contingency to which the war may give rise. Furthermore, the programme I have suggested in regard to liquor should prevent a further falling off in liquor receipts and ensure the provinces very high continuing revenue from this source. Examination of the published accounts of the various provinces will show a very substantial increase in their ordinary revenues since the outbreak of war, which is of course due, directly or indirectly, to our own huge expenditures for war purposes. For the first time in many years, all provinces have been showing surpluses on ordinary account, some of them very substantial indeed, and others calculated after setting aside sizeable reserves of one kind or another. We are glad to see that the war has made it possible for the provinces to achieve a material strengthening in their financial positions. The war, however, has made the financial task of the Dominion infinitely more difficult. Because of that, because of the picture which I have had to present in this budget, I believe the house and the country will regard as fully justified the decision which we have reached to reject the provincial request for a guarantee of revenues from motor vehicle licences and to subject our proposed guarantee of provincial liquor revenues to the conditions which I have described.

Increasingly large sums are being spent by the public on cigarettes and tobacco and I propose to increase the revenue derived from this source. It will be recommended that the tax on cigarettes under the Special War Revenue Act be increased by one cent for each five cigarettes or fraction of five, making the total tax under this act two cents for each five cigarettes in addition to the excise duty of $6 per thousand. This change should produce an increase of $22,000,000 in revenue. In conformity with this change, it is proposed to raise the excise taxes on cigarette papers and tubes from six to eight cents and from twelve to fourteen cents per hundred respectively. We hope to derive $2,000,000 extra revenue from this source.

Similarly, it is proposed to increase the tax under the Special War Revenue Act on manufactured tobacco from one to two cents per ounce. The excise duty of 35 cents a pound will remain unchanged. An excise tax on raw leaf tobacco of one-half cent per ounce is recommended to bring the total excise tax and duty to 28 cents a pound. The increases on raw and manufactured tobacco are expected to contribute $6,700,000 in additional revenue.

It is recommended that the tax on cigars under the Special War Revenue Act should be raised by $5 per thousand in the first price category and by appropriate increases in the higher price categories.

The amount of expenditures by the public in night clubs and similar places of entertainment seems to me to warrant an increase in the tax on such expenditures and I shall recommend that the rate be raised from 20 per cent to 25 per cent. It will be recalled that the tax applies to the amount of every charge made to a patron of such place of entertainment and is paid in the first instance by the patron to the operator. An increase in revenue to the extent of $500,000 is anticipated to result from this change.

Thus far in the war no change has been made in the postal rates. The need for revenue is now so great that a change can no longer be delayed. It is proposed to levy an additional tax, under the Special War Revenue Act, effective April 1, of one cent per ounce or fraction thereof on certain categories of mail, viz., on first-class office to office mail, (not including postcards, nor letters addressed to members of the armed forces overseas), and on so-called "drop" letters, i.e., letters collected by and distributed from the same office. The total rates will be four cents for out of town letters, and three cents for "drop" letters. The increased revenue expected from these changes is $8 million.

The customs tariff has fallen from the high position it has previously held as an instrument of fiscal and economic policy. Under the circumstances of war, the tariff has little effect except as a producer of revenue. The scope and direction of trade are now governed by the consideration of supply, transportation and enemy action and not by the tariff. Under these circumstances, changes in the customs tariff are of no effect in expanding or curtailing trade. I do not propose, therefore, to recommend changes in the tariff other than a few modifications chiefly for the purpose of amending tariff items which have become outdated.

There will again, however, be a time when the tariff will be an important instrument of trade policy and when this country will have to decide whether it will play its part with other countries which are prepared to help in freeing the world's trade, in enlarging markets, and in promoting the full and effective use of the world's resources.

The government has already, by an exchange of notes with the United States on November 30 last, undertaken to enter into conversations with that country, and with other countries, for the purpose of formulating programmes of agreed action directed to the expansion, after the war, of production, employment, and the exchange and consumption of goods, to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers.

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.

The most important of the tariff changes proposed relates to the customs duty on imported spirits. The additional duty on spirits is being increased from $5 per proof gallon to $7 per proof gallon in order to equalize the increase being made in the Excise Act making the total duty on imported spirits $12. For many years, it has been the practice to make no allowance below fifteen per cent in computing the quantity for duty purposes of imported spirits of a lesser strength than fifteen per cent under proof. Since it is not lawful now to sell spirits of greater strength than thirty per cent under proof, it is proposed that customs duty shall be collected on the actual strength of proof. The other changes proposed in the customs tariff provide for a number of tariff reductions and amend the wording of several items to facilitate administration. The duty free item covering nickel alloys is widened in scope. The other changes relate to certain articles for the manufacture, maintenance and repair of buoys and beacons, cigarette paper in sheets, bolting cloth, glue and fresh, frozen or dried peel.

This completes the tax changes which I am recommending and I shall, with the permission of the house, put on *Hansard* two tables, one showing the increases in revenue expected from the tax changes recommended, and the other the full revenue estimates for the coming fiscal year after giving effect to the changes in tax rates and time of payment.

Yields from Proposed Revenue Changes
Fiscal Year 1943-44

Increased yields from changes in existing taxation—	
Personal income tax	$ 105,000,000
Excise duties—	
Spirits	5,000,000
Excise taxes—	
Cigarettes	22,000,000
Cigars	2,000,000
Manufactured tobacco	6,500,000
Raw leaf tobacco	200,000
Cigarette papers and tubes	2,000,000
Night clubs and cabarets	500,000
	$ 33,200,000
Post Office	$ 8,000,000
Total	$ 151,200,000
Less refundable taxes	15,000,000
Net total	$ 136,200,000

[Mr. Ilsley.]

Forecast of Total Revenue for Fiscal Year 1943-44

	Revenue from existing taxes $	Increase in revenue from budget proposals $	Total revenue $
Customs duties	100,000,000	....	100,000,000
Excise duties	130,000,000	5,000,000	135,000,000
Sales tax	225,000,000	....	225,000,000
War exchange tax	85,000,000	....	85,000,000
Other excise taxes	165,000,000	33,200,000	198,200,000
Income taxes:			
Personal	825,000,000	105,000,000	930,000,000
Corporation	300,000,000	....	300,000,000
Interest and dividends	26,000,000	....	26,000,000
Excess profits tax	550,000,000	....	550,000,000
Succession duties	18,000,000	....	18,000,000
Miscellaneous	7,000,000	....	7,000,000
Tax revenue	2,431,000,000	143,200,000	2,574,200,000
Non-tax revenue	130,000,000	8,000,000	138,000,000
Total	2,561,000,000	151,200,000	2,712,200,000
Special receipts	40,000,000	....	40,000,000
Total revenue	2,601,000,000	151,200,000	2,752,200,000
Less refundable taxes	210,000,000	15,000,000	225,000,000
Net total revenue	2,391,000,000	136,200,000	2,527,200,000

CONCLUSION

On the basis of these estimates of the yields of the increase in tax rates, the total revenue for 1943-44 (including the refundable portions of the personal income and excess profits taxes) should be approximately $2,752 million. With expenditures of $5,500 million, we will have a budgetary deficit of $2,748 million to be covered by borrowing as compared to the similarly estimated deficit in the current year of $2,161 million.

The programme which I recommend to the house and to the people of Canada is briefly and simply this, that each man and woman in this country should limit personal and business expenditures so that provision can be made of $5,500 million for the purposes of war and the ordinary conduct of government; that we should contribute $2,752 million through the taxes now in force and the additional rates which I have recommended and that we should lend an additional $2,748 million. As far as simple formal standards will permit and careful scrutiny by the house will ensure, the tax contributions will be adjusted to the ability of each receiver of income to pay. But beyond this, all of us, individually and as people united in a common purpose, must determine our own ability to lend out of savings in accordance with the common objective and so manage our spending that we can achieve our share of the great task that is ahead of us in 1943-44.

The carrying out, and to some degree the organization, of the borrowing programme is in the hands of the people themselves. It will be directed by the National War Finance Committee to whom I have four requests to make.

(1) to continue and expand the programme of increasing the public understanding of the critical need for greatly increased savings;

(2) to multiply the sale of war savings certificates and stamps;

(3) to organize and carry out in the next twelve months two victory loan campaigns directed particularly to the mobilization for war of the personal savings of the people on a vastly enlarged scale;

(4) to promote by every means the retention by purchasers to the end of the war of the bonds and certificates which they buy.

Let me emphasize two points. The only way to accomplish this financial and economic programme is through increased personal savings, spending less and lending more. Some of the people's savings are mobilized and lent to the government through the insurance companies and other financial institutions. Businesses can contribute savings out of retained profits, unexpended depreciation and maintenance funds and unnecessary working capital. Large subscriptions to loans representing but a temporary shifting of assets will not do what must be done.

My second point is this: After the close of each victory loan campaign, many thousands of subscribers dispose of the bonds they bought during the campaign period. Further, many thousands of people are presenting their war savings certificates for redemption. I should like to make it clear that victory loan bonds and war savings certificates are the property of their individual owners who have the right to turn them into cash at any time they may desire. No restrictions on the sale of bonds or on the redemption of the certificates after six months are under consideration, and no restrictions have been under contemplation at any time in the past. When a person buys a victory bond or a war savings certificate, that person is making it possible for this country to get the men and material needed for war use, and is helping to fight the home-front battle against inflation. When people sell their bonds or present their certificates for redemption, they are withdrawing this help.

Emergency needs for cash are legitimate reasons for selling bonds or redeeming certificates, provided the person has no other forms of savings which can be used, or provided the person cannot obtain a temporary loan, to be repaid out of future income, to meet the immediate need for cash. Sales or redemptions to get dollars to buy things that are not essential have not legitimate reason. We must not only increase our voluntary savings and lend them to our country through the purchase of victory loan bonds and war savings certificates; we must also continue to hold these securities at least until after the war, unless we need money for real emergency use. I repeat what I said in the budget last year, "Let us compete with our neighbours, in saving, not spending."

The National War Finance Committee is performing a task of the first importance in our war programme. The responsibilities of each person in this organization are very great, and I have now made them greater.

Let no one be misled because I have considered it wise in the interest of the total objective to improve and simplify the collection of taxes rather than, to any great degree, to increase rates and add new complications. The need is so great that it must be understood clearly and each person must see clearly his own part in meeting that need.

I shall not conceal from the house nor from the people that the programme which I have set out is a huge one and will be difficult of achievement. It is not a financial programme; it is only the financial aspect of our war programme. The basic facts are that industrial workers who are making shells and tanks and planes cannot at the same time make food, and clothing and shelter. Farmers cannot produce food for home consumption in the time spent on producing cheese and bacon for countries on shorter rations than we. Ships carrying ore to make aluminum to make planes, or oil and gasoline for air operations, cannot carry sugar and gasoline for the rest of us.

The Canadian people can shoulder this task so that they can bring this year their war programme to its highest effectiveness and in addition assure to themselves and to the men returning from the fighting fronts resources for a more prosperous and ordered world after the war. I have confidence in the strength, the discipline and the united purpose of the people of Canada.

We do not know when victory will be achieved. No one knows. Anyone who professes knowledge is an irresponsible deceiver. And in my judgment those who are airily predicting victory in 1943 as if they did know are contributing to a premature relaxation of our war effort and in this way doing a great deal of harm. Most of those who believe that the war will be finished in 1943 and that we should be careful lest we put forth too great an effort are the same persons who thought it had finished and that we had lost in 1940.

We know two things and two things only. We know that we are in a position to strike hard, perhaps crushing blows in 1943 against those peoples who have made good their evil threat to bathe tne world in blood. We know that the time to relax our efforts in a war with desperate and cunning adversaries is when they have given up their arms and surrendered unconditionally.

We do not need to tell these things to the men of the army undergoing ever more intensive battle training for the moment when they strike. We do not need to tell them to the men of the navy driving through biting wind and perilous sea to find the lurking submarine. We do not need to tell them to the airmen winging their way over Germany and Italy. We in this house and the people of this country need to tell them to ourselves.

Our soldiers, our sailors, our airmen will do their part. They are well trained; they are well equipped; they are well led; their courage and devotion are beyond praise. But what they achieve, they cannot achieve alone. It must be shared by the farmer at his work, the mechanic in the shop, the housewife in her home—in short, by every Canadian. Their achievements will be shared by each Canadian who, this year, and to the end of the war, carries out unswervingly, skilfully, relentlessly the watchwords of this budget: work and save.

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:

EXCISE ACT, 1934

Resolved, that it is expedient to introduce a measure to amend the schedule to the Excise Act, 1934, and to provide:

1. That the duty of excise on spirits distilled in Canada be increased from nine dollars to eleven dollars per proof gallon, provided that duty paid spirits owned by any distiller at the close of business on the second day of March, one thousand nine hundred and forty-three shall be subject to the following additional duty of excise on every gallon of the strength of proof two dollars and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon.

2. That the duty of excise on Canadian brandy be increased from seven dollars to nine dollars per proof gallon, provided that duty paid Canadian brandy owned by any distiller at the close of business on the second day of March, one thousand nine hundred and forty-three, shall be subject to the following additional duty of excise on every gallon of the strength of proof two dollars and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon.

3. That any enactment founded upon the foregoing resolution shall come into force on the third day of March, one thousand nine hundred and forty-three.

SPECIAL WAR REVENUE ACT

Resolved, that it is expedient to introduce a measure to amend the Special War Revenue Act and to provide:

1. That the excise tax on each letter transmitted by post be increased from one to two cents.

2. That the excise tax on cigarettes be increased from one cent to two cents for each five cigarettes or fraction of five cigarettes contained in any package of cigarettes manufactured in or imported into Canada.

3. That the excise tax on manufactured tobacco be increased from one to two cents per ounce actual weight or fraction thereof on manufactured tobacco of all descriptions, except cigars or cigarettes, manufactured in or imported into Canada.

4. That there shall be imposed, levied and collected an excise tax of one-half cent per ounce actual weight or fraction thereof on Canadian raw leaf tobacco when sold for consumption in Canada.

5. That the excise tax on cigarette paper be increased from six cents for each one hundred leaves or fraction thereof to eight cents.

6. That the excise tax on cigarette paper tubes be increased from twelve cents for each one hundred cigarette paper tubes or fraction thereof to fourteen cents.

7. That the excise tax on the price of admission to certain places of entertainment be increased from twenty to twenty-five per cent.

8. That subsections (a), (b) (c), (d) and (e) of section 1 of schedule II to this Act be repealed and the following substituted therefor:

1. Cigars:—
   (a) valued at not more than forty dollars per thousand, per thousand, six dollars and twenty-five cents;
   (b) valued at more than forty dollars per thousand and not more than one hundred and ten dollars per thousand, per thousand, thirteen dollars and fifty cents;
   (c) valued at more than one hundred and ten dollars per thousand and not more than one hundred and fifty dollars per thousand, per thousand, twenty-five dollars;
   (d) valued at more than one hundred and fifty dollars per thousand and not more than two hundred dollars per thousand, per thousand, thirty-five dollars;
   (e) valued at more than two hundred dollars per thousand, per thousand, fifty-five dollars.

9. That any enactment founded on paragraph one of these resolutions shall come into force on the first day of April, one thousand nine hundred and forty-three.

10. That any enactment founded on paragraphs two to eight, inclusive, of these resolutions shall come into force on the third day of March, one thousand nine hundred and forty-three.

CUSTOMS TARIFF

1. Resolved, that schedule A to the customs tariff, being chapter forty-four of the Revised Statutes of Canada, 1927, as amended, is further amended by striking thereout tariff items 105a, 156, 156a, 197c, 232, 355, 440i, 563, the several enumerations of goods respectively and the several rates of duties of customs, if any, set opposite each of the said items, and by inserting the following items, enumerations and rates of duty in said schedule A: