An Act for the relief of Rhona Gertrude Paikowsky Munn.
An Act for the relief of Arthur Joseph Hubbard.
An Act for the relief of Eleanor Hibbard Howe.
An Act for the relief of George Graver.
An Act for the relief of Malcolm Ernest Bigelow.
An Act for the relief of Mary Epstein Harris.
An Act for the relief of Helen Irene Flewelling Wilson.
An Act for the relief of Maitabel Horwitz Hollander.
An Act for the relief of Pauline-Gisele Guennette Villeneuve.
An Act for the relief of Mary Jaclyn Robinson Jeffrey.
An Act for the relief of Jessie Hope Forbes Hardie.
An Act for the relief of Robert Venor.
An Act for the relief of Lillian Audrey Atkinson Jackson.
An Act for the relief of Bernard Cook.
An Act for the relief of Estelle R. Warhaft Slobod.
An Act for the relief of Alexander Fitz Ormonde Spooner.
An Act for the relief of Eleanor Williams.
An Act for the relief of Joseph Henri Veaudry.
An Act for the relief of Amelia Jezik Pascas.
An Act for the relief of Cyril Mackie.
An Act for the relief of Carol Gordon Cass Planche.
An Act for the relief of Eveline Richmond Sykes Lacoe.
An Act for the relief of Miriam Vineberg Perel.
An Act for the relief of Paul Krawchuk.
An Act for the relief of Henry Arthur Creates.
An Act for the relief of Stephanie Tymchuk McLean.
An Act for the relief of Annie Spivack Prosterman.
An Act for the relief of Kenneth Edwin Morrison.
An Act for the relief of Almeda Mabel Hartry Ritchie.
An Act for the relief of Margo Ismena Graydon Heubach.
An Act for the relief of Erika Gossen Tenzer.
An Act for the relief of Isabel Greenshields Biggs.
An Act for the relief of Henri Edme Bernard.
An Act for the relief of Nellie Harrison Andersen.

An Act for the relief of Marie Irene Clementine Elizabeth Ash.
An Act for the relief of Alexander Grant.
An Act for the relief of Thomas Beach.
An Act for the relief of Fanny Miller Astrofsky.
An Act for the relief of Grace Ellen Rafter Munro.
An Act to amend the Act incorporating The National Council of Women of Canada.
An Act to incorporate Evangelical Churches of Pentecost.
An Act to incorporate the Executive Board of the Church of the Nazarene.
An Act respecting Citizenship, Nationality, Naturalization and Status of Aliens.
An Act to amend the Feeding Stuffs Act, 1937.
An Act to amend The Naval Service Act, 1944.
An Act for granting to His Majesty certain sums of money for the public service of the financial year ending the 31st March, 1947.

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

Right 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, in presenting the last budget to this house on October 12, I emphasized that, although hostilities were over, it must still be regarded as a war budget, providing as it did mainly for war expenditures during the fiscal year 1945-46. The budget which I now have the honour and duty to place before the house is essentially a peacetime budget, providing for the financial needs of the first post-war year which is wholly a year of peace, although these needs include also certain remaining costs of demobilization and heavy costs for gratuities and other benefits to our veterans, costs that will not recur on a similar scale in subsequent years.

In reviewing the background against which this budget is projected, I do not propose to look further back than the period of demobilization and reconversion. A review of our war finance and of our other economic policies and activities during the war would remind us of many achievements in which Canadians may justly take pride. I referred to some of them briefly in the budget of last October. We plan to provide the important figures of our war finances in convenient form for reference in the next issue of the public accounts. The data regarding government financial operations during the last fiscal year, that is to say, the year ending March 31, 1946, I have set forth in a white paper which I shall table at the conclusion of my remarks and which will be printed as an appendix to the budget for the convenience of the house and the public.

As this white paper gives voluminous detail in regard to the revenues, expenditures and the other transactions and accounts, it will be necessary for me to refer only to some of the highlights in the record for the past fiscal year. The figures quoted, by the way, will not be the final figures; they are close estimates subject still to certain minor adjustments and to one major alteration in connection with the United Kingdom financial agreement, which I shall explain in a moment. In this connection, I should perhaps mention that the accounting adjustments and offsetting transactions required to complete the settlement of various war accounts have been particularly numerous this year, including for instance many transfers of payments originally made as advances on account or out of working capital funds to the final account to which they should be charged in our books.

Total revenues, including refundable taxes, amounted to $3,028 million, a slight increase from the revenues of the previous year. Accounting in part for this high total is the sum of $593 million under the heading, "Special receipts and other credits". While this includes some such readily understandable items as the net income of the Canadian National Railways, the earnings of Park Steamships Limited, the proceeds of sales of surplus crown assets, etc., it is made up in considerable part by refunds of previous years' expenditures and other essentially bookkeeping transactions arising out of the war. For instance, amounts previously paid by the Department of Munitions and Supply to contractors as advances or working capital are now being finally charged to the department or agency which received the supplies. Such refunds of previous expenditure must be brought into revenue but at the same time there are some corresponding and offsetting increases in expenditures. Too much significance therefore must not be attached to the over-all total of revenues, and the deficit is, of course, not affected by these offsetting transactions.

More significant is the total of ordinary revenues which amounted to $2,436 million, a decrease of only $84 million from the previous year. Total tax revenues are now estimated to have been $2,275 million, which is about $100 million less than in the preceding year. However, this figure includes only $73 million of refundable taxes as compared with $220 million in the preceding year, so that if we consider net taxable revenues we obtained about $48 million more in 1945-46 than in 1944-45, despite the substantial tax reductions made in the budget of last October. If we look at the yield of individual taxes, we find decreases in the revenue from the personal income tax, the corporation tax and excise taxes, and increases in the yield of the excess profits tax, succession duties, customs import duties and excise duties. But I shall not weary the house with the statistical details. The decline in the yield of excise taxes was more than accounted for by the abolition of the war exchange tax; most of the other special excise taxes showed increases, offsetting to a considerable extent the decline in the sales tax, which arose from the broad exemptions introduced last year for building materials and various types of goods entering into production costs.

Non-tax revenues increased by about $15 million to a total of $160 million. As the house knows, most of this revenue is derived from post office receipts and from the return on investments, both of which sources of revenue have shown a steady increase in recent years.

Ordinary expenditures for the year are estimated at $1,062 million, an increase of $295 million from the preceding year. This substantial increase is largely accounted for by an increase of $97 million in the cost of servicing the public debt and by the introduction of family allowances, which involved a cost of $173 million during the fiscal year.

War and demobilization expenditures for the year are shown at a total of $3,558 million. This total includes the offsetting bookkeeping charges that correspond to refunds included in special receipts arising from the adjustment of earlier expenditures made as advances by the Department of Munitions and Supply and finally charged to the departments and agencies receiving supplies. Expenditures by the army, navy and air force amounted in the year to $1,707 million, as compared with $2,938 million the previous year. These service expenditures included heavy costs of repatriation and demobilization, as well as settlement of arrears of charges incurred in previous years of active warfare. The expenditures of the Department of Munitions and Supply and Reconstruction amounted to $263 million, including the item of $145 million for the costs of termination of war contracts following the end of hostilities. Expenditures to provide Canada's contributions to UNRRA amounted to $143 million, completing the total of $154 million which we agreed to provide. Mutual aid expenditures, including the settlement of outstanding accounts for deliveries in the previous year and the cost of some supplies and aircraft on hand and surplus at the end of hostilities, amounted to $772 million. Expenditures for supplies for military relief amounted in the year to $34 million, for which bills are being rendered to the governments of the recipient countries by the combined military authorities. War expenditures of the Department of Veterans Affairs (including the costs of gratuities, reestablishment credits, rehabilitation benefits, treatment and pensions) amounted to $328 million, nearly three hundred million more than in the previous year. All war expenditures other than those already mentioned amounted to $311 million, of which various subsidies on agricultural products and subsidies to maintain ceiling prices amounted to about $192 million.

We have not as yet included in the figures of war expenditure the $425 million represented by the cancellation of accumulated liabilities of the United Kingdom under the British commonwealth air training plan. Although this was provided for in the financial agreement with the United Kingdom, the relevant article of the agreement and the section of the act implementing it have not yet been put into effect, pending action by the United States Congress on the Anglo-American financial agreement. They will be put into effect, however, immediately after approval is given to that agreement, which is now at an advanced stage of congressional consideration. The result will be to extinguish this item now listed on our balance sheet as an advance to the United Kingdom, and to increase the figure of war expenditures for 1945-46 by a corresponding amount. This is the major change which I expect to see in our final accounts for the year, as compared with the estimates now presented.

Special expenditures increased by about $10 million, largely due to an increase in advances to the prairie farm emergency fund. Capital expenditures, losses of and non-active advances to government-owned enterprises and other charges remained practically unchanged. For the sixth year in succession an amount of $25 million was added to the reserve for possible losses on ultimate realization of active assets.

[Mr. Ilsley.]

The grand total expenditures for the year amounted to $4,691 million, a decrease of $555 million from the preceding year. As total revenue, exclusive of refundable taxes, was $2,955 million, the over-all deficit for the year was $1,736 million, a figure approximately $822 million lower than the deficit of the previous year. This amount is, of course, the extent of the increase in the net debt during the fiscal year.

Our financial requirements for loans, advances and investments, which amounted to a total of $666 million, are set out in some detail in the white paper. This was more than $200 million larger than in the previous year, due to very large advances to the foreign exchange control board and loans and advances to allied governments.

Total borrowings during the year, excluding the renewal of treasury bills, deposit certificates and short term notes held by the Bank of Canada, amounted to $3,750 million. Of this huge total, the great bulk was obtained from the two highly successful victory loan campaigns. In the eighth victory loan, during the spring of 1945, a total of approximately $1,564 million was obtained, made up of 3,178,275 subscriptions. In the ninth loan, floated in October and November, total subscriptions amounted to $2,025 million and numbered 2,947,636. These two highly successful loans marked the climax of the work of the national war finance committee, to whose able leadership I have frequently paid tribute. Our other borrowing during the year took the form of refundable taxes, an increase of $70 million in treasury bills, the sale of war savings certificates and stamps, and a modest increase in the floating debt. During the year we redeemed for cash securities of a par value of $916 million, including $155 million in U.S. dollar securities. Details of borrowing operations and redemptions are given in the white paper. Our holdings of cash in Canada increased by $536 million during the year, accounting in considerable part for the large total of borrowings. The cash deficiency during the year—that is, the net amount borrowed to finance expenditure, loans and investments, and not to redeem debt or add to balances in Canada—amounted to $2,452 million, as compared with $2,955 million the previous year.

There was one important development in our borrowing operations and policy which should be mentioned. As I announced on February 27, the government reduced the rate of interest on deposit certificates sold to the chartered banks after that date from $\frac{3}{4}$ of 1 per cent to $\frac{5}{8}$ of 1 per cent, and has arranged with all the chartered banks that the holdings by each bank of government securities other than these deposit certificates and treasury bills or notes will be limited in amount to the equivalent of 90 per cent of its Canadian personal savings deposits and will be so selected as to maturity as to yield on average an interest rate which gives them only a moderate profit margin over the cost of interest and other operating expenses on these savings deposits. This constitutes an important development in monetary policy and government finance; it means that monetary expansion through the purchase of government securities by the chartered banks will not result in more than a modest profit margin for the banks on such new assets and liabilities. During the war we were able to accomplish this objective, in substance, through the large scale use of deposit certificates and informal arrangements for their distribution to the various banks. This new development will enable us to continue to obtain in peace time the advantages of low cost short term borrowing from the banking system.

As at March 31, 1946, our total unmatured funded debt, including refundable taxes, amounted to $16,807 million as now estimated. The net debt was $13,034 million, which reflects, of course, an increase during the year of the amount of the budgetary deficit. The funded debt carried annual interest charges of $436 million. The average rate of interest was 2·59 per cent, as compared with 2·51 per cent as at March 31, 1945, the slight increase being due to the fact that most of the addition to our debt during the year took the form of 3 per cent victory bonds.

The white paper which I am tabling to-night and which will amplify the brief summary which I have just given, deals at length only with the government accounts. Next year I hope to be able to present additional information of broader significance, showing how the government accounts and activities have fitted into those of the nation as a whole. Already the house will probably have noted the interesting and significant figures of national income, production and expenditures which have recently been prepared by the dominion bureau of statistics in cooperation with other departments and agencies of the government. By next year I hope we shall have both the basic statistical data and the staff necessary to prepare for presentation at the time of the budget figures showing the way in which the government expenditures, revenues and financing relate to the accounts and economic activities of the nation as a whole, and this should help in understanding and appraising the effect of the government's expenditures and its budget proposals upon the economic life of the community.

I have so much else that I must speak about in this budget that I propose to comment only very briefly on the economic situation. In any case, immediate economic considerations are of less importance in determining our present proposals than longer term economic policy and the necessities of dominion-provincial relations.

We find Canada to-day more prosperous and further along the road of reemployment and reconversion that we could reasonably have expected last autumn when I presented the previous budget. Despite many shortages and interruptions, our economy as a whole has turned with remarkable speed from war service and work to peacetime jobs and objectives. We are enjoying a level of employment and prosperity that we have never experienced before in peace time. For that, in the hungry and devastated world of to-day, we should be thankful. On the other hand, we do not have the spirit of agreement, of cooperation and mutual confidence that we had hoped for; on matters of public policy we do not seem to have found the peacetime equivalent to the "win-the-war" objective that kept us united and strong during the war and enabled us to reach high levels of national achievement. I need not comment on the international or industrial difficulties and disagreements. In a field much closer to home, and immediately affecting this budget, we find now that our previous hopes for a comprehensive agreement between the Canadian and provincial governments have not been realized. Lacking an agreement that would have enabled us and the provincial governments to make plans with confidence and boldness, we must now proceed more cautiously, thankful that the present prosperity makes many of our problems less urgent for a short time.

When the war ended in Europe, slightly more than a year ago, there were three-quarters of a million men and women in our fighting forces. Now there are only about one hundred thousand; in little more than a year we have released about six hundred and fifty thousand. Of these, the large majority have found employment, or are taking university or vocational training, or have gone into business for themselves, assisted by their wartime savings and the many benefits provided for veterans. In the same period—but even more suddenly—our workers in war industry were released upon the labour market. The number is roughly the same as that of servicemen demobilized. All told then, about one Canadian in four who work for a living has been released from war activities. Several hundred thousand of them—married women, old people and students—have left the labour market. Some others are unemployed, unable to find work which they can and will undertake—although there are more than one hundred thousand unfilled jobs. The rest—the majority of the servicemen and war workers—are busy at work now in industry, trade, farming or elsewhere. Despite shortages and interruptions, peacetime production and trade have expanded rapidly and absorbed most of those seeking work with remarkably little difficulty. The number of unemployed is only about 200,000 at last report, and with the best season for employment still ahead. This compares with about 75,000 unemployed and seeking work immediately after the end of the war in Europe. This 200,000 is only about 4 per cent of our total labour force, at a time when changes in occupation are going on rapidly, and when it is difficult for men to move to the jobs that are now available.

The rapid and successful demobilization and reemployment of man-power has been accompanied and, to some extent made possible, by the rapid technical reconversion of industry. War equipment was removed and replaced by equipment for civilian production in a great many plants with relatively little delay or difficulty. When the change-over has involved or been accompanied by modernization or extension of civilian production facilities, there has been greater difficulty and delay, due to shortages and competing demands in the United States and abroad.

In 1944 the total market value of all our current production and services—what the statisticians call our "gross national product"—reached a wartime peak of about $11\frac{3}{4}$ billion, compared with a value, at lower prices, in 1938 of about \$5·1 billion. Thus, the effect of the war, including the effect of price increases, was to more than double our gross national production. We do not know, of course, what the final figure will be for the current year, but so far it has been running at about \$11 billion—although that level may be pushed down as a result of interruptions to production.

Our present prosperity and employment are also on the whole well distributed throughout the country. There are some areas which have suffered from crop failure or from the disappearance of unusual wartime industrial or other activity, and which are experiencing temporary difficulties or a period of readjustment to more normal conditions, but there are surprisingly few of them.

The reason for the continuing high levels of production, employment and incomes, is that the demands of war, represented by war expenditures which have fallen from a huge total a year ago to a small fraction of that to-day, have been replaced by other demands which, though less insistent and insatiable, are nevertheless large and urgent and backed by effective purchasing power.

Our income from exports is the most important factor determining our prosperity and employment in peacetime. During the war our exports reached fantastic levels, largely financed by war expenditures directly as through mutual aid, or indirectly, through what our forces spent abroad. These war exports included many of our staple products—foods, metals and other raw materials—but consisted largely of war products, guns, planes, ships, vehicles, ammunition, radar sets and other manufactured war equipment. Now, of course, the exports of these war supplies have almost entirely disappeared. But the exports of food and raw materials continue at high levels, and exports of civilian manufactured goods—locomotives, trucks, railway cars, ships, and machinery—are replacing those of war supplies, and helping to maintain our export trade, and therefore export incomes, at levels far above pre-war even though below the wartime peak. This is the main factor in the maintenance of our national production and employment.

While the need of overseas countries for our exports is enormous and urgent, most of them can only buy from us on credit. It is vitally important for the future development of our trade that these countries, particularly Britain and the countries of western Europe, should be able to buy our foodstuffs, metals, other raw materials and some of our new manufactured products, in order to reestablish their economic life and emerge as great trading nations providing markets for our goods. On our side, it is important to maintain export production and income while war expenditures decline and until normal trade, both domestic and international, is fully reestablished. Therefore the government has undertaken a large programme of export credits, which from the economic point of view is replacing our war expenditures by government investments, on which we shall earn a return in future years.

The second powerful influence maintaining employment and production, despite the decline in war expenditures, is private expenditure of a capital nature, including building and construction, the purchase of new equipment and machinery, and the accumulation of stock in trade. In this general field there has apparently been a substantial increase in expenditure over the levels of last year. There is a large amount of private capital seeking investment in new building, plant and equipment, but the amount of expenditure of this kind is severely limited now by shortages of materials, parts and manufacturing capacity. In the building and construction field particularly, shortages of building materials, and to a lesser extent the shortage of skilled labour, are seriously restricting the provision of housing that is most urgently needed, as well as other forms of construction, particularly commercial and industrial buildings. It is to be hoped that this industrial and commercial expenditure that cannot readily be made now will be deferred a year or two, when it will help in sustaining high levels of employment and incomes after other temporary stimulants are less strong.

The third offset to the decline in our war expenditures has been a substantial increase in the expenditures of consumers. At present a great many consumers have on hand large reserves of savings which they accumulated during the war, and some of which they wish to spend when the goods they want become available. Moreover, the proportion of their incomes which people have spent on consumption during the war has been abnormally low and will increase—both because they will not try so hard to save as under the pressure of war and because the proportion of income taken as taxes has been abnormally high. Now we may expect people to spend more of their incomes—and they are trying to do so. In addition, there has been the effect of the expenditures on family allowances, to which I have already referred. These payments commenced shortly after the end of hostilities in Europe, and immediately offset a part of the rapid reduction which then took place in our war expenditures. Of even greater importance in its current effects, we have been operating a comprehensive and generous system of gratuities, benefits, reestablishment credits and other assistance for those leaving the armed services. I doubt if the house or the public realizes the large size of the sums involved in this programme. During the fiscal year for which we are now budgeting, these various payments to or on behalf of veterans as already provided for in the estimates, will add up to $620 million. and this figure omits the amounts paid by the services themselves for leave on discharge, deferred pay, clothing allowances and similar benefits. Nearly a quarter of all our expenditures this year will be directly for the benefit of veterans and their families. This year, of course, is the peak period, but these veterans' expenditures have been building up rapidly as war expenditures proper have declined, and have constituted a powerful influence increasing the total of what consumers have been trying to spend.

In fact, of course, consumers' expenditures continue to be limited and determined by the goods and services that are available to meet the demands. The available information indicates a moderate increase in these expenditures during recent months and a more substantial increase in employment in the industries supplying the consumer, particularly in trade and the service industries.

The fourth influence offsetting the decline in our war expenditure has been a modest increase in the non-war expenditures of governments and municipalities—and in this I refer to their expenditures on supplies and services. In the case of the dominion government we have deliberately endeavoured to keep this increase to the minimum required by urgent post-war projects. and in particular we have pruned our public works and other construction programmes drastically in order to avoid demands on building materials and building labour urgently required for housing. I hope that provinces and municipalities will find themselves able to follow a similar policy at this time when the housing situation is so acute. Apart from projects that compete with building, however, there are many increased expenditures by governments and local bodies which it is important to proceed with as soon as possible after the war, and the result has been a gradual increase since last summer in government expenditures that give rise to employment and production.

While I hesitate to venture into the field of forecasting economic developments in a world as chaotic and eventful as the one we are living in at the present time, it appears that these major influences which have maintained a high level of expenditures for Canadian goods and services despite the reduction in war expenditure will persist for the remainder of this fiscal year, and beyond it, unless further difficulties arise to retard production. If these difficulties can be avoided, then I think we may reasonably expect a level of expenditure adequate to maintain a high level of employment and production through the year. Indeed, the pressure of expenditure at the present in many fields is so great that action by the government and others is needed to prevent rapidly increasing prices and the development of inflation.

The pressure on prices is still very strong. The scarcity of goods in relation to spending power is less than during the last few years, because there are more goods and services available for sale. both from larger production and imports and from the decline in the purchases of goods for war purposes. On the other hand, purchasers have incomes nearly as high as in wartime, accumulated savings on hand at levels never before approached, and a greater disposition to spend now that the war is over. All this tends to pull prices up. Prices are also getting pushed up from below by increases in costs, increases in the cost of imported materials and parts, increases in fuel costs, increases in wages, and higher overhead costs when output is restricted.

We must resist this pressure towards higher prices and keep the increases within reasonable limits. During the war, as a result of strenuous efforts and the effective cooperation of the Canadian people, we succeeded in keeping prices under control and avoiding inflation. It would be the greatest folly now to dissipate the fruits of our efforts by letting prices get out of hand, by letting inflation set in when the battle is nearly over. Adjustments are necessary now, and many of them have been made. Some increases in prices and wages have been essential, and some others have been tolerable. We believe it is wise, and practically necessary, gradually to relax and remove the controls which made up our stabilization programme. Price ceilings are being raised here and there where conditions permit, and suspended altogether in some cases where no serious harm seems likely to result. Wage and salary control has been made more flexible to permit adjustments that are necessary, or that are justified on grounds of equity. But this relaxation is intended as a deliberate, orderly programme of decontrol and not as an invitation to a mad scramble for higher prices and wages in which we shall all suffer. So far, most Canadians have on the whole shown a sensible restraint in seeking adjustments of prices and wages. Now that we are relaxing our controls, we must look to all important groups and their leaders to act with sense and discretion and a due regard for the results of their actions upon others. I am sure that all members of this house would regard inflation now as a dismal tragedy, coming at the end of what has been an outstanding record of success in dealing with the economic problems of war.

The real answer, the constructive answer, to the inflationary pressures existing at this time is to work and produce the goods that are wanted in greater volume, so that our greater buying power will result in more goods at reasonable prices, rather than fewer at higher prices. To business men in particular I would like to address a plea that they do all in their power to hold prices down and get volume up, over this next critical year. The purchasing power represented by wartime savings will go further and our prosperity will be more permanent, if prices can be kept down. Canadians, before long, must expect to meet competition in export markets and in their own markets from the exports of other countries. We wish to enter that long period of competition with the advantages of low costs and volume production, so that high employment can be maintained and a high real standard of living.

Production then should be our primary objective both for its own sake in a world that needs goods so badly, and as a safeguard against the present danger of inflation. We should aim now at high volume production for civilian purposes despite shortages, strikes, delays and uncertainties, high volume production rather than high prices as a source of income and profits. No longer must civilian production be restricted in order to conserve resources for war. It can now receive first priority.

BUDGET FORECAST 1946-47 AND FINANCIAL PROPOSALS

It is with this view of the current economic situation and the prevailing trends that I have approached the primary purpose of this budget, namely, the formulation of financial proposals to meet the requirements of the current fiscal year 1946-47 and the months immediately following the close of the year.

As the house knows, the main estimates for the current fiscal year, covering both ordinary expenditures and expenditure chargeable to demobilization and reconversion, involve an expected outlay of $2,769 million. We have found from experience, however, that there are likely to be savings in any financial programme of that magnitude, although of course it is impossible to say beforehand in respect to what items the savings will actually be made. On the other hand, payments to veterans, chiefly veterans' credits, have been running in recent months at higher levels than were anticipated when the main estimates were prepared. My own forecast is that apart from any substantial increase in this item and assuming no new commitments of a major character, the total savings will be sufficient to allow for any supplementary and further supplementary estimates which it may be necessary later in the year to ask the house to approve.

On the revenue side, it is estimated that under our tax laws as they now stand, total revenues in 1946-47 will approximate $2,510 million as compared with $2,956 million in the last fiscal year. I shall place on *Hansard* a table showing the details of this estimate in comparison with the revenues of 1945-46:

	Forecast Fiscal Year 1946-47 (millions)	Actual Fiscal Year 1945-46 (millions)
Customs duties	$ 183	$ 129
Excise duties	195	187
Sales tax (net)	250	212
War exchange tax	...	41
Other excise taxes	259	244
Income tax:		
Personal	640	692
Corporate	210	218
Excess profits tax	340	494
Interest and dividends	30	28
Succession duties	24	21
Miscellaneous	9	9
Total tax revenue	2,140	2,275
Less refundable taxes	...	73
Net tax revenue	2,140	2,202
Non tax revenue	170	161
Total ordinary revenue	2,310	2,363
Special receipts	200*	593
Total revenue	$2,510	$2,956

* Arbitrary estimate.

On these estimates which are believed to be conservative, there will be a decline of $446 million in our revenues this fiscal year compared with last, but most of this expected decrease comes from assigning to special receipts an arbitrary estimate of $200 million as compared with last year's corresponding figure of $593 million which, as I have already explained, is inflated by abnormal bookkeeping transactions. The more significant comparison relates to ordinary revenue, the estimate for which shows a decline of $53 million from last year. This expected decrease is largely attributable to the reductions in personal income and excess profits taxes announced in last year's budget. Substantial declines in the yields of these two taxes are not expected to be fully offset by moderate increases in the returns from customs and excise duties, the sales tax and the special excise taxes.

These revenue estimates of course are based on the assumption of no changes in our present tax structure. They indicate that if no such tax changes are made and if our total expenditures do not exceed the estimate given a few minutes ago, we may expect a budgetary deficit for 1946-47 of roughly $260 million. Measured by standards of the past, that is still a not inconsiderable deficit but it is in pleasing contrast with the deficit of $1,735 million which I have already reported for the last fiscal year.

It is possible that some of the revenue figures given above may prove to be underestimates if economic conditions remain as prosperous as at present, and in particular, special receipts, swollen by large scale disposals by War Assets Corporation, may be higher than the $200 million figure quoted. On the other hand, as I have already indicated, expenditures in the form of payments to veterans have been running ahead of earlier estimates. I think we can best accept the relatively conservative estimates that I have given above, in the expectation that there may be offsetting increases on both sides of the account, leaving the deficit roughly at the level forecast, subject, of course, to the tax changes which I shall propose.

The financial requirements for which we must provide during the present fiscal year include not only our budgetary expenditures but certain disbursements outside the budget for the acquisition of active assets. For this purpose, during the present year we shall have to raise a substantial amount of cash, as in addition to the normal increases in loans, advances and investments, resulting from ordinary government activities, including the financing of the foreign exchange control board, the export credits programme and the United Kingdom loan will require the disbursement of governmental funds in very large volume. We estimate that during 1946-47 the total of these disbursements which create active assets may be in the neighborhood of a billion dollars. This will bring our total financial requirements on the basis of present commitments and present estimates during the year to roughly 3¾ billion dollars.

Financial requirements of this magnitude do not of themselves suggest a reduction in taxes. Moreover, as I have already indicated, the current economic situation in respect of the available volume of purchasing power and current spending trends is not such as to provide an economic justification for reducing taxes at the present time. Lighter taxes are not needed now for the purpose of permitting or encouraging additional private spending in order to maintain employment this year. In fact, if only immediate economic conditions were involved, one could make a case for temporary higher taxes in order to curb the excess of spending in some directions that is tending to pull prices up.

There are, however, other important considerations to be borne in mind. In the first place, the action we take now in regard to taxes should provide whatever stimulus is possible to increased production. If we can encourage hard work and efficient production at this critical time, we shall be assisting greatly the effectiveness of our other actions to overcome the inflationary influences left behind by the war.

Secondly, in shaping our tax policies at present we should be moving toward our normal post-war tax policy, and we should therefore bear in mind the long run problems we shall face once the huge, temporary post-war demands have been satisfied and it becomes necessary for us to maintain and stabilize national expenditure and employment. When that time arrives, we must depend on steady, large scale capital expenditures by private business, and on our ability to sell our products abroad (and at home, too) in competition with other countries, if we are to succeed in maintaining a high level of employment and a high standard of living. To secure these conditions of stable prosperity we must revise our wartime tax system in such a way as to preserve essential fairness in the distribution of the total burden and avoid any serious deterrent to hard work and efficiency.

It will therefore be my pleasant duty in a few minutes to announce reductions in taxes on personal and corporate incomes which are based upon these longer run considerations as well as upon the desire to increase immediately the incentive to produce, even though we recognize that such reductions at this time may possibly increase some of our difficulties during the period of shortages and inflationary pressures.

The effect of the tax reductions which I shall propose to-night will, I believe, depend to an important degree upon what provincial governments do when the wartime tax agreements expire. These agreements were made in order to provide a necessary increase in over-all taxation from imposing intolerable inequities and hardship. Unless new arrangements are made to enable provinces to meet their requirements without a free-for-all scramble to exploit the major tax sources, I am convinced that this country will lose much of the economic advantages which should accrue from the over-all tax reduction which is now envisaged. Before outlining my tax proposals in detail, I must, therefore, refer to the problem of dominion-provincial financial relations.

This problem is far more than one of taxation alone. What is at stake is Canada's ability (a) to have an effective anti-depression policy and to maintain full employment and a high national income after the present abnormal transition period is over; and (b) to achieve a reasonable standard of economic security for all Canadians no matter in what part of the country they may live. It was with these broad objectives in mind that the dominion government put forward its proposals to the dominion-provincial conference which began its sessions on August 6 last.

These proposals outlined a coordinated programme by which the dominion and the provinces could most effectively work together to provide high and expanding employment and national income, a wide measure of economic security and a less burdensome, more efficient tax system. The proposals formed an integrated whole but for purposes of the present outline can be grouped in three categories: those relating to public investment, those relating to social security and those dealing with tax reform.

Obviously at the present time of many continuing shortages and pressing demands it is not opportune to consider launching a large public investment or public works programme. Nevertheless the wartime depletion of many of our assets and depreciation of many of our public works make it imperative that we now prepare plans for greatly expanded activity in the whole field of public investment when the employment situation and other conditions should make that desirable. In the August proposals emphasis was laid in particular on two aspects of public investment. One was the desirability of regulating the timing of public investment in so far as that was practicable, with a view to levelling out booms and depressions. The second was recognition of the need for increased expenditures on the conservation of our soil and forests, and the economic development of our resources. To these ends the government outlined a substantially expanded programme of resource development and conservation services and construction projects which it was prepared to undertake itself, and also a broad list of services and categories of projects under provincial jurisdiction which it was prepared to assist. There were in addition grants proposed to provincial governments, and through provincial to municipal governments, to assist in meeting the cost of advance planning of projects with a view to building up a reserve shelf of useful works for time of need, and to encourage the best timing in relation to the general employment situation for carrying out these planned works. The programme as a whole was designed to develop and conserve the productive wealth of Canada to assist in stabilizing employment, and to widen opportunities for private investment and employment. The character of investment proposed was one complimentary to private investment rather than competitive with it and was designed to be, when not directly self-liquidating, of real economic and social value to the nation.

The various social security proposals had also broad economic as well as broad social objectives. They were planned not only in relation to the needs of individuals suffering from the distress of unemployment, illness and old age, but also with a view to stabilizing the income of the lower income groups of the population and consequently that of the community as a whole.

The proposal for unemployment assistance was designed to care for the great bulk of able-bodied workers who might be unemployed through no fault of their own. This extension of dominion responsibility would remove the overcharging menace to the ability of provincial and municipal governments to finance themselves, and in particular the threat and uncertainties facing real property owners, inherent in the present responsibility for relief. In addition, proposals were made for expanded vocational training and other rehabilitation services designed to fit men for their most productive work and to prevent deterioration arising from idleness.

The old age pension proposals, including as they did, an increase in benefits and abolition of the means test for all persons aged 70 and over, and with provision for assistance to provincial schemes for persons from 65 to 69, recognized the claims and needs of our old people with which there seems to be general sympathy. The qualifying age for federal assistance for pensions to the blind was to be lowered to 21.

In the important field of health the proposals provided for substantial dominion assistance to provincial public health and preventive medicine activities, for tuberculosis, mental disease and venereal disease prevention and cure, and for other health services. In addition an offer was made to meet approximately 60 per cent of the cost of provincially administered health insurance schemes within a national framework. The health insurance offer was an optional rather than obligatory part of the proposals and the programme was to be developed progressively by stages and areas. It was believed that it would contribute a great deal to relieve individual suffering and improve the health of the nation, and would ultimately pay substantial dividends in financial as well as human terms.

As in the case of Australia, New Zealand and the United Kingdom, it was proposed that these expanded social services would be financed in part by direct personal contributions. These might be likened to modest insurance premiums paid by each individual in order to make systematic provision against risks or contingencies which might otherwise fall with crippling force upon the family budget, as for instance the cost of medical care does to-day. There were no hard and fast provisions laid down as to the financing of the province's share of health insurance except that there was to be a registration fee which was not specified.

The tax proposals which have been the subject of so much controversy were in reality two-fold, and there is some danger that sight may be lost of the second and more important of these aspects. As a necessary preliminary, the government proposed that it should have exclusive occupancy of the personal income, corporation, and succession duty tax fields, compensating the provincial governments by annual rental payments. The August proposals were subsequently modified in respect to the succession duty tax to provide for continued exercise, by any province which so wished, of its succesion duty rights, with compensating credits to individuals paying provincial taxes and compensating adjustments in the annual rental paid to the provincial government. The government then outlined the policies which it proposed to follow if an agreement had been reached giving it a free hand in these fields, including reduction in personal income taxes and elimination of a portion of the existing element of double taxation in the corporate tax. The government attached great importance to the benefits which would be possible through a single administration of these important tax fields, arising from simplification and reform of the tax system on a scientific basis to reduce the total tax burden, from the removal of existing inequities, from greater efficiency of administration and collection, from reduction in the cost of tax compliance by the taxpayer, and from the means it would have available through appropriate changes in policy to help offset fluctuations in the business cycle. Of particular importance was the belief that the right tax policies, varying with the needs of the times, would lead to broadening and expansion of the tax base, that is to say, the size of personal and national incomes, and consequently reduce the real burden of taxation. These taxes which were once relatively trivial in amount have of necessity become far too large to allow conflict, confusion and overlapping of policy to thwart investment, retard industry and depress employment. They are far too important adjuncts of economic policy to be exercised in different and uncoordinated ways if we are to achieve our objectives of high and stable income and employment.

A word should be added on the fiscal position in which the dominion's proposals would have put the provincial governments. In the major expenditure fields of public investment and social services, the government was prepared to assume responsibility for the most sharply fluctuating items and to assist the provincial governments substantially in expansion of their own services. Municipal budgets would also have been relieved of both substantial current and potential expenditures. The annual rental offered the provinces to vacate, for the proposed three-year term of the agreement, certain direct tax fields was not only generous in relation to any amounts which the provincial governments had hitherto derived from these fields, or could expect to derive in the light of the necessary post-war level of dominon taxes, but could not fall below a guaranteed minimum and would rise proportionately with increases in gross national product. The net effect would have been to put all provincial governments in a much stronger and more stable fiscal position than they had ever enjoyed before or than there was any prospect of their achieving in a return to the general free-for-all of pre-war. At the same time it was believed this could be done at a reduced over-all cost to the taxpayers, and would provide positive incentives to industry and a greater degree of security for all Canadians in all parts of Canada.

The conference which met last August, decided to accept the dominion's proposals as a basis for discussion and a continuing coordinating committee was appointed consisting of the Prime Minister and the nine provincial premiers. This coordinating committee met in camera from November 26-30, from January 28-February 1, and on April 25 and 26. Most of the discussion at these meetings took place within the framework of the dominion proposals. Modifications were suggested by provinces and a good many substantial revisions were made by the dominion at the January and April meetings, so many indeed that we were charged with "constant and drastic revisions" while at the same time we were also accused of "uncompromising rigidity". It is fair, I think, to add that no alternative to the broad outlines of the dominion's proposals was discussed at the coordinating committee meetings held in camera.

I shall not attempt to analyse the stand taken by each province. The published record of the open meetings which took place from April 29 to May 3 speaks for itself. I am convinced that in the case of at least a majority of provinces an agreement could have been reached along the broad outlines of the dominion's proposals. However, at least two provinces appeared to be definitely opposed to an agreement of the character and scope offered by the dominion. In the case of Quebec, it was never at any time made clear just what changes in the dominion proposals would be necessary to make them acceptable to that province. Ontario, it is true, did offer a proposal which was an alternative to the dominion proposals, but it was not until the closing hours of the conference that the financial implications of that proposal were revealed. These involved so large a net increase in total cost to the dominion as to put the proposal beyond the possibility of responsible consideration.

Under the Ontario proposal we were asked to forego revenues from which we estimated we would receive $102 million per year and to accept an increase in our obligations amounting to at least $32 million and perhaps to as much as $100 million, as compared with those assumed under the dominion's finally revised proposals. In other words, the Ontario proposal would, according to our estimates, have involved an additional net burden on the dominion treasury of at least $134 million a year, and perhaps $100 million in addition to that. These figures have been disputed, but they cannot be successfully refuted. At that stage the dominion felt it had made as comprehensive an offer, and had undertaken to assume as great a financial burden, as it could possibly justify to the people of Canada. The negotiations had extended over nine months and during that period of time the dominion had repeatedly revised its proposals in an endeavour to meet the several requests made by the provinces. We were still willing to accept suggestions for modification of our proposals provided they did not further increase the burden upon the taxpayers of Canada. In particular, we were willing to rent for a temporary period our rights to use certain fields of excise taxation, in the same way as we were asking the provinces to rent to us temporarily their rights in certain fields of direct taxation, provided the provinces could agree amongst themselves with respect to the rental consideration. However, none of the suggestions to this end made by ourselves or by some of the provinces, was acceptable to the provinces generally, and when it became clear how wide was the gulf between the dominion and at least one of the provinces, the conference adjourned *sine die*. There is nothing to be gained by post mortems or recriminations. We must now get on with our tasks as best we can.

The inability to reach a final agreement with the provinces has, however, greatly complicated my task in formulating this budget. The budget obviously cannot be based on the assumption that a general dominion-provincial agreement will still be reached. In my opinion the differences are far too great, not only between some provinces and the dominion but also between some provinces and other provinces to permit of reconciliation at an early date. I have had therefore to prepare this budget upon the assumption that no new general tax agreement could be made in the near future. Accordingly, in keeping with the terms of section 20 of the wartime tax agreements, I am proposing that the dominion's flat rate of tax on corporate incomes be reduced from 40 per cent to 30 per cent as from January 1, 1947. I am also proposing, as I shall explain in detail a little later, a substantial further reduction in personal income taxes, effective in 1947, which will enable the provinces which so desire to re-enter the personal income tax field. With these proposed reductions and with the payments to the various provinces of certain holdbacks within thirty days of the termination of the present agreements, we shall have fully carried out all our obligations under those agreements.

Nevertheless, we have all along been acutely conscious that the mere carrying out of the terms of these agreements would not enable us to remain indifferent to the problem of provincial finance and taxation. The agreements will all expire by next spring, three of them this fall, and without a new agreement several provinces are going to be faced with a difficult budget problem, and a chaotic tax situation is likely to arise.

If no new agreements are made, the provinces will again become dependent upon what they can collect from income and corporation taxes. Unfortunately, the income and corporation tax base is very unevenly divided as between provinces. Even before the war those provinces which were less fortunately placed in this respect were driven to uneconomic methods of taxation in attempting to meet their budget requirements. Apart from duplication and overlapping of taxes, provinces were forced to adopt arbitrary and makeshift devices which bore heavily on costs and hampered production. In spite of this, some provinces could not meet their minimum requirements without loans and temporary subsidies from the dominion. Their autonomy and their ability to discharge their constitutional responsibilities were seriously threatened.

If the pre-war situation was unsatisfactory, the post-war position will, in the absence of new agreements, become intolerable. Provincial expenditures have expanded greatly. Overall provincial budgets, brought down for the current year, call for expenditures higher by about $200 million than in 1940. This is an increase of roughly two-thirds. If the provinces again become dependent on income and corporation taxes, some will be forced to adopt taxation expedients far more drastic than those employed before the war. Financial pressure on the less-favoured provinces will give rise to increasingly arbitrary and discriminatory taxation, will lead to interference with interprovincial trade and to the extension of government ownership and operation of business merely in order to obtain additional provincial revenues which of course would mean loss of revenues to the dominion. Even with all this, it is difficult to see how some provinces could retain their solvency and any degree of financial autonomy. Moreover, the arbitrary and discriminatory provincial taxes would come on top of dominion taxes which, while substantially less than at present, would still be considerably higher than before the war. The dominion cannot stand aside and allow such a situation to develop. It would seriously impair the capacity of private enterprise to provide high and expanding employment. It would weaken and perhaps destroy our federal system.

The government has reached the conclusion that it would be irresponsible in the extreme if it allowed such a situation to develop without a further attempt to prevent it. It has been convinced that it would be shirking its responsibility to the people of Canada if it did not seek to devise some modified proposal which could be accepted by those provinces which wished to accept it and be left aside by those which did not desire it or felt they had no need for it. Such a modified proposal we have devised.

While it is to be regretted that it was not possible to reach agreement with all the provinces at the conference, it would be a mistake to say that the conference itself had not been of the utmost value in making clear to the governments of all the provinces as well as to the dominion government the problems with which each is faced, and the factors of which full account must be taken if immediate pressing situations are to be met and any practicable solution is ultimately to be found. Our modified proposal has been devised in the light of the conference discussions. I wish now briefly to outline its terms. It is, as I have indicated, wholly optional. Any province which wishes to do so will be perfectly free to remain out of the agreement and deal with its own problems in its own way. With those provinces which accept it, an agreement will be signed which will terminate five years after the termination of the present agreement. This is a longer term than the term of three years provided in our original proposals. It is, however, expected that some provinces may wish to sign immediately and others, if they sign at all, may not sign for one or two or more years. Having this in mind, it seems inappropriate to suggest a term shorter than five years.

The essence of our proposal is that in return for specified unconditional annual payments and other benefits, the agreeing provinces would undertake to restrict during the term of the agreement their use of the three fields of direct progressive taxation as follows:

(a) The agreeing provinces would agree not to levy any taxes on personal income nor permit their municipalities to do so. There would, of course, be double taxation of personal incomes in those provinces which did not wish to enter into the agreement and proceeded to levy their own taxes on personal incomes, but in order to help reduce the burdens of such duplication the Dominion would be willing to give a tax credit to the individual taxpayer of the amount of the tax he had to pay to the province, up to 5 per cent of the tax payable to the dominion by such taxpayer. Any increase in financial burden on the individual taxpayer would thus be avoided if the provincial tax did not exceed 5 per cent of the dominion tax. The provincial government would, of course, have to remain the sole judge as to the amount and nature of the tax it imposed on its own people, but obviously the inconvenience to the individual taxpayer involved in filling out two sets of income tax returns and calculating tax on two different bases would be decreased if the provincial tax were imposed as a fixed percentage of whatever tax might be payable to the Dominion by the individual taxpayer. In order to be of assistance to that end, the Dominion would be willing to make extra copies of its forms available so that when filling out his dominion tax return the taxpayer could merely make an additional copy and mail it with his cheque to the treasurer of his province.

(b) An agreeing province would undertake to levy a five per cent tax on net corporate income within the province and would also agree on behalf of itself and its municipalities to impose no other corporation tax or tax on corporations except corporations engaged in mining or logging operations. For this purpose, a corporation tax would have the same meaning as under the existing agreements. The province would also agree to discontinue the special five per cent tax mentioned above at such time as all provinces had made a tax agreement with the dominion. The five per cent levy would be based on taxable income as defined in the dominion income tax law, and allocation between provinces would be made on the basis of uniform rules worked out between the dominion and the provinces making an agreement. The dominion would collect the five per cent tax for the province and the dominion's annual payments to the province, as specified below, would be reduced by the amount of such collections. Any province not signing the agreement could levy such taxes as it pleased on its corporations, but any such taxes defined as corporation taxes or income taxes under the existing agreements, other than taxes on corporations engaged in mining and logging operations, would not be regarded as a deductible expense for the purpose of calculating taxable income under dominion tax laws.

(c) For the duration of the agreement also an agreeing province would either undertake not to levy succession duties at all or if it wished to continue to do so, it would agree to accept an appropriate reduction in its annual payments due from the dominion. In the latter case, succession duty amounts payable to the province would be treated by the dominion as a credit against amounts due under the dominion succession duty but the credit would be limited to one half the succession duties payable to the dominion. The dominion's annual payments to an agreeing province so continuing to impose succession duties would be reduced by the aggregate amount of such credits. This proposal, of course, will involve a doubling of the rate of succession duties now in effect under the dominion act but because of the system of tax credits already described, the general burden of the combined dominion and provincial succession duties in those provinces which continue to levy succession duties will be the same as at present.

In return for these undertakings, the agreeing provinces would receive annual payments from the dominion along the lines of the proposal made by the dominion to the provincial premiers at the conference held two months ago. For the term of the agreement the dominion would undertake to supplement the present statutory subsidies in such a way as to provide that each province signing an agreement with the dominion would receive a guaranteed minimum annual payment, including statutory subsidies, equal to $15 per capita based on the 1941 actual or the 1942 estimated population of the province, whichever is the greater. The actual payments to be made in any year would be equal to the guaranteed minima increased in proportion to increases both in population and in per capita gross national production and would be based on the average of payments as determined separately for each of the three preceding years. In no case would the dominion's payments to a province be less than 150 per cent of that province's annual receipts under its wartime tax agreement (excluding guarantee of gasoline tax revenue). For no province would they be less than two million dollars. In addition, all provinces would be free to tax profits from mining and logging operations and any such taxes would be treated as a deductible expense for dominion tax purposes. Finally, in the case of companies whose main business is generating for distribution to the public or distributing to the public electrical energy, gas and steam, the dominion would pay to the provinces concerned one-half the dominion's net corporation income tax collections from such companies in respect to such business. This payment to a provincial government would be reduced by an amount equal to any taxes which the government of that province levied on such companies. If a provincial government or one of its municipalities should take over a tax-paying corporation (other than one of the category just mentioned), the specified annual payments to that province would be reduced by the amount of the tax loss sustained by the dominion. The provisions regarding the allowances for taxes on mining and logging operations and half the tax on certain public utility companies will apply to all provinces, whether or not they sign an agreement.

I have had prepared a table showing the guaranteed minimum payments for all of the provinces and the payments presently estimated for the year 1947, assuming all provinces accepted the agreement, together with the provincial revenues received from comparable sources at the present time. With the consent of the House, I shall place this table on *Hansard:*

Dominion Payments to Provinces Under Proposed Tax Agreements
(Millions of Dollars)

	Dominion Payments to Provinces under Proposed Tax Agreements		Present Provincial Receipts From			
	Guaranteed Minimum	1947 as Presently Estimated	Wartime Tax Agreements	Statutory Subsidies	Provincial Succession Duties(1)	Total of Foregoing
P.E.I.	2·0	2·0	·7	·4(2)	·1	1·2
N.S.	8·9	10·0	2·9	·7(2)	·6	4·2
N.B.	7·0	7·5	3·7	·7(2)	·4	4·8
Que.	50·9	57·3	20·6	2·9	7·8	31·3
Ont.	58·3	64·5	29·0	3·2	12·1	44·3
Man.	10·9	11·8	5·7	1·7	·6	8·0
Sask.	13·4	13·7	5·8	2·0	·4	8·2
Alta.	11·9	13·3	5·8	1·8	·6	8·2
B.C.	18·1	18·1	12·0	1·0	1·3	14·3
Total	181·4	198·2	86·2	14·4	23·9	124·5

(1) Average collections in latest five-year period for which data are available, viz., 1940 to 1944 inclusive.

(2) Excludes interim subsidies of $275,000 (P.E.I.), $1,300,000 (N.S.) and $900,000 (N.B.) which are included in the previous column under Wartime Tax Agreement receipts and which will become statutory upon expiration of the Wartime Tax Agreements.

NOTE: The table does not take into account the effect on provincial revenues of the dominion's proposals in regard to taxes on mining and logging operations and the contribution of half of the dominion's receipts from the taxes on certain public utility companies. Nor, of course, does it take into account any reductions in payments due to collections of the special five per cent provincial tax on corporations or the credits allowed to taxpayers where the province continues to collect succession duties. These last two factors merely change the name of part of the payment and not its total amount.

Analysis of the table will reveal that the nine provinces are now receiving from statutory subsidies, payments by the dominion under the wartime tax agreements, and succession duties, a total of $124·5 million a year. Under the new proposal, if all provinces should accept they would receive as now estimated, a total payment in 1947 of $198·2 million, and no matter how low the national income might fall at any time during the next five years they would always be sure of the minimum payment of $181.4 million.

If any province did not wish to enter the agreement it would need to raise the amount of revenue shown in the following table by personal and corporation taxation, or some other form of taxation, to have the same revenue as that estimated for 1947 under the agreement:

	million
P.E.I.	1·2
N.S.	7·4
N.B.	5·5
Que.	46·6
Ont.	49·2
Man.	9·5
Sask.	11·3
Alta.	10·9
B.C.	15·8
	$157·4

I cite these figures to show the budgetary problems with which the nine provinces will be immediately confronted if no new agreement is made and also to suggest the probable resultant pressure on the tax system of Canada. The budget problems of these provinces must be solved in some way if we are to build a strong and united Canada. Is it not far sounder that they should be solved by a system of automatic payments objectively determined and made in return, so to speak, for the rental of an asset rather than by a system of outright subsidies or handouts? The latter, on the scale indicated, would either encourage irresponsible expenditure in the hope that any additional assistance required would always be forthcoming, or alternatively involve a control by the dominion over provincial administration, which is neither desirable nor practicable.

It has been said that the proposed payments by the dominion to the provinces are not based on the principle of fiscal need. That criticism fails to grasp the true facts of the situation. What is essentially valid in the position taken by the financially weaker provinces is their claim that the great bulk of the wealth and income of the country is concentrated in the two or three large provinces, that most of the head offices of the corporations doing business all over Canada are situated in Ontario and Quebec, and that the larger provinces, therefore, get an unfair share of the tax revenues which are based on the corporate profits and the personal incomes and estates resulting from the business done throughout the country. Now, what the dominion's proposal does is to provide a method whereby the three maritime provinces and the three prairie provinces will be enabled to derive from these sources the same per capita revenue as Ontario and Quebec. By selling certain rights to the Dominion for the term of the agreement, they are put in a position of sharing with the two central provinces equally on a per capita basis the productivity of the three great fields of direct progressive taxation—corporation taxes, taxes on personal incomes and succession duties. Surely this is going very far to meet the test of fiscal need. If, in spite of such assistance, any one province should still find itself under normal conditions faced with a fiscal problem. that could only be due to a higher relative level of expenditures or a failure to tap other sources of tax revenue to the same extent as other provinces. In such a case, a further fiscal need subsidy would be impossible to justify, although this does not of course mean that occasionally a province or region may not be affected by a calamity which might justify special temporary assistance.

Another merit of the proposal is the greatly increased measure of stability which it would assure for the revenues of an agreeing province. The province would of course benefit from any increase in its population and in per capita gross national product but its revenues from the three tax sources would never fall below the guaranteed minimum, no matter what happened to business conditions. It would be dominion revenues which would have to bear the shock of an economic recession but the dominion government is in a far better position to carry a large deficit for a time than is any provincial government. The high floor which would be set under a substantial part of the revenues of the agreeing provincial governments would enable them to plan their developmental programmes with greater assurance and give them a financial responsibility and freedom of decision in the matters entrusted to them by the constitution not previously known. In this way also would the federal system be strengthened.

In addition to assuring to agreeing provinces a specifically and objectively determined annual revenue, adequate in amount and stable in character, the arrangement which we are offering to make with each province should go a long way toward avoiding the overlapping, discriminatory and uneconomic methods of taxation which will otherwise result when the wartime tax agreements expire. Throughout the agreeing provinces there will be uniformity of over-all income and corporation tax and probably of succession duty rates as well. There will be only one agency collecting such taxes in these provinces and any differentials in the over-all rates as between agreeing and non-agreeing provinces should not be of major proportions.

The proposed arrangements represent, I believe, the closest approach which can be made under present conditions towards an efficient system of income, corporation and succession duty taxation. The way in which, and the rates at which, these taxes are levied have such a bearing on enterprise, on the incentive to work, and on national income that I would urge every province to give our offer the most careful consideration. There are, of course, additional and substantial benefits which can only be achieved if and when this interim arrangement can be made with all provinces. Only then will the dominion be in a position to implement its undertaking made at the conference to reduce the element of double taxation on distributed corporate earnings, which has a tendency to discourage risk-taking investment.

Perhaps a more important point is that if and when tax agreements can be made with all provinces and the dominion has exclusive use of the three tax fields in question, it will be able to co-ordinate the management of these taxes with its employment and economic policy as a whole. If I may quote from what I said to the conference on May 1 last, social justice requires that these progressive taxes be used to the fullest extent possible; economic common sense requires that they be limited to rates that will not stop people working hard and taking those risks which are necessary if we are to produce effectively and make progress. It requires the most careful judgment to balance these conflicting considerations under all the changing economic conditions and political pressures which a modern nation must face. Yet success is vital if we are to maintain employment and economic progress. Success would be made very much more difficult, and perhaps impossible, if it required the joint action of ten governments rather than one. The dominion is prepared and is best able to carry the responsibility of seeing that these progressive taxes are fully used, but not used so much that they do more harm than good. If, however, the provinces are also in this field, there will be a natural tendency for them to take a narrower view, a purely financial view, and to force the total of their taxes and dominion taxes to uneconomic levels. If, for example, experience showed that the corporation income tax, at some time in the future, was so high that it prevented the proper expansion of industry and employment in the nation as a whole, in the judgment of the dominion government, it would be proper to reduce it; but if the provinces were also using that tax, some of them, if not most or all of them, would be likely to raise their corporation taxes to take advantage of the reduction made by the dominion. The provinces might feel, quite rightly, that they could not afford to take as long range a view as the dominion, and if they were in need of revenue, they would probably find it difficult to reduce their taxes or to refrain from increasing their taxes because of the possible effects upon general employment and economic development in the country as a whole. This argument would be especially strong in times when employment and incomes were declining and when vigorous efforts were needed to encourage private expenditure and the expansion of industry. In such times, provinces would naturally be faced with declining revenues in other fields, and would be understandably reluctant to join in a programme of reducing income or profits taxes which however beneficial its long-run effects might be, had the immediate result of reducing substantially the revenues on which provincial expenditure depended.

For the information of the house I may say that I am mailing tonight a letter to the premier of each province, outlining the offer which I have just described and discussed.

It will be desirable if those provincial governments which wish to enter into such an agreement indicate their acceptance at an early date. Arrangements can then be promptly made for getting the agreements into a final form agreeable to all provinces which propose to sign. In some cases special arrangements to take care of special circumstances will have to be made. For instance, it is understood that the western provinces may not wish to sign a new tax agreement until a collateral agreement has been reached in regard to the refunding of their outstanding treasury bill indebtedness to the dominion. In the case of New Brunswick, Nova Scotia and Prince Edward Island, should they desire to accept the present proposal, it might also be necessary to consider an extension for a few months of the present wartime tax agreements which expire on October 31, November 30 and December 31 next respectively, if the necessary authorizing legislation in respect of the annual payments cannot be prepared in time for enactment at the present session of parliament. These and other matters of a similar kind will be the subject of discussion with representatives of the provincial governments concerned. It is my hope, however, that all points of principle can be agreed upon in sufficient time to submit the necessary legislation to parliament at an early date.

The house will have noted that the proposal I have outlined is limited strictly to matters of finance and taxation. That is an inevitable result of the failure thus far to achieve agreement with the provinces. It is obvious that the dominion cannot, for instance, assume responsibility for unemployed employable persons in some provinces but not in others.

Nor can it introduce the over-all plan of social security we had contemplated without at the same time reaching a satisfactory financial agreement with the provinces. Several of the major objectives of the comprehensive dominion proposals which were announced last August must therefore be held in abeyance for the time being. They remain, nevertheless, an essential part of the programme of this government. We continue to be ready to proceed with these or similar measures as and when arrangements can be worked out which will enable us to carry them out satisfactorily. We earnestly hope that those who have it in their power to make agreement possible will not long delay in making it possible to consummate the objectives we have in mind.

Obviously, the interim programme which I have outlined will represent not an ideal solution but only a second best. It is, however, the only solution which at the moment appears to be practicable. Moreover, it is one which is capable of growth. Several provinces will, we hope, be prepared to enter into an agreement at once. Others may do so next year or the year after. In due time we expect that all provinces will see that it is to their advantage to enter into the agreement. However, any province which believes, as I think erroneously, that such an agreement would weaken autonomy or lead to undesirable centralization or would for any other reason be against its best interests will be perfectly free to remain out of the agreement and deal with its own problems in its own way. We, for our part however, believe that unanimous agreement is the effective way to assure full employment, a high standard of living, and a wide measure of social security for the Canadian people.

PERSONAL INCOME TAX

I wish now to speak in more detail of the tax on personal incomes. As I have already said, we are proposing a substantial reduction in rates under this tax, effective from January 1, 1947. In addition we are proposing a thorough reorganization of the whole structure of this tax. Our personal income tax is now unnecessarily cumbersome, in part because the refundable tax requirement, though obsolete, is still a part of the basic tax law, and in part because it has been necessary as an interim measure to introduce a supplementary rate schedule in order to remove the duplication of benefit between family allowance payments and income tax allowances for the same child. It will also be recalled that our income tax in its present form embodies two separate taxes, namely, the normal tax, which developed from the national defence tax, and the graduated tax. Each of these taxes has its own set of allowances and credits, which are a blend of deductions from income and credits against tax. Not only is the tax structure itself complex but as the house well knows its drafting leaves much to be desired. We have already begun through an interdepartmental committee a much-needed rewriting of the entire statute but this process will not be brought to completion in time for action at the present session of parliament. However, the amendments which I am about to outline will not only reflect a radical revision and simplification of the present pattern of the income tax but also offer an important instalment in the process of re-writing and clarifying the legislation itself.

The exemption limits under the present tax are $660 for single persons and, in effect, $1,200 for married persons. As a major part of the present revision we are proposing that the exemptions be raised to $750 for single persons and $1,500 for married persons without dependents. This measure, taken in conjunction with the proposal I shall make in a moment regarding allowances for dependents, will remove entirely from the income tax roll between 550,000 and 600,000 taxpayers, or about one-quarter of the present number. The proposed exemptions will be in the form of deductions from income in the manner of the pre-war exemptions, and the $1,500 deduction will replace the combined income deduction of $660 and the tax credit of $150 granted the married man under the present law.

I am aware of suggestions, made by persons who may not be familiar with all the facts, that the exemption limits be raised to $1,000 for single persons and $2,000 for married, or even to $1,200 and $2,400. We have carefully examined these and other suggestions and have come to the conclusion that exemptions of $750 and $1,500 are as high as can be reasonably proposed under present circumstances.

In the first place, we must still raise very large amounts of revenue. Even if no tax reductions were made, our revenues will fall considerably short of our expenditures and far short of our total financial requirements for the current year. Moreover, as I have outlined, there is already a great excess of purchasing power and we must not add unnecessarily to it. In addition to these immediate considerations, we must bear in mind that the government and parliament face a post-war period in which events are likely to move swiftly and in respect of which we have accepted a large measure of responsibility for maintaining high employment. Under the circumstances we cannot afford to reduce our revenues too drastically.

Secondly, we are all, I believe, agreed that the income tax is the fairest and best tax on which to rely for the bulk of our revenue. More than any other, it takes ability to pay properly into account. We must, I consider, rely upon it as heavily as we can, subject to the limits imposed by its effects on incentive and efficiency. This applies as well in the lower brackets as in the higher. We cannot secure proper equity and fair treatment if the exemptions from income tax are so high as to exclude most of those receiving incomes. It is just as important to be fair in the distribution of taxation between persons earning $1,500 and $2,400 a year respectively as it is between these persons and those earning $5,000 or $10,000 a year. I have said that we cannot afford to reduce our revenues beyond reasonable figures. In these circumstances, if we raised unreasonably the exemptions for the income tax, or lowered the rates of income tax too drastically, we would only make it necessary to impose other less equitable, even regressive, forms of taxes.

Comparison of our proposed exemptions with those of other countries indicates clearly, I believe, that the figures now proposed are as high as Canada can reasonably go. The suggested exemption of $750 for the single person compares with one of $700 in Australia and New Zealand, of $500 in the United States, and of $490 in Britain. Similarly, the proposed exemption of $1,500 for a married person compares with $1,077 in New Zealand, $1,000 in the United States, $931 in Australia, and $800 in Britain. In addition, Britain, Australia and New Zealand have substantial social security taxes which apply at much lower levels than the exemptions I have given for income tax alone.

We are, I believe, fortunate in being able to afford after the war income tax exemptions as high as three-quarters of what they were before the war, despite the enormously heavier burdens which the war has thrust upon us. The amount of revenue that can be raised, indeed the amount of income to be taxed, in the higher brackets is disappointingly small. If we are to take a serious view of our financial responsibilities in this house, we cannot, I believe, urge such extravagant exemptions in our income tax as to lead inevitably to other less fair and open measures of taxation.

As a companion measure to the increase in the basic exemptions for single and married status, it is proposed that the present tax credits of $28 allowed against normal tax and $80 allowed against graduated tax for dependents of the taxpayer be replaced by deductions from income, and that the temporary measure by which family allowance payments are now adjusted to the income tax allowances for a child make way for a solution that will be simple and permanent. It will be recalled that under the present method of adjusting the tax of a parent in respect of whose children family allowances are paid, the parent is allowed to obtain both the family allowance and the income tax credits for the same child, but an amount of the family allowances corresponding roughly to the value of the income tax credits for the child must be repaid to the government. This method of adjustment requires that each taxpayer receiving family allowances must report the amount of such allowances to his employer in order that his tax deductions be adjusted accordingly. This method is cumbersome and complicated for the taxpayer, the employer and the income tax administration.

To overcome these complications, it is now proposed to allow a single, simple deduction from income of $100 for each child eligible to receive family allowances, and to regard all taxpayers having such children as receiving the family allowances for their children. For other dependents not eligible for family allowances, there will be allowed a straight deduction from income of $300. This step will provide a workable and permanent solution and at the same time will preserve the principle approved by this house when the Family Allowances Act was passed, namely, that a taxpayer who received family allowances for his children would not also receive a full allowance for the same children under the Income War Tax Act. The value of a deduction from taxable income of $100, plus the family allowance, will exceed the equivalent of a $300 deduction from income for nearly all taxpayers, particularly in the lower brackets where the excess is considerable.

I should make it clear that this proposal assumes the universal payment of family allowances to all taxpayers with eligible children from January 1, 1947. A taxpayer with a child eligible for family allowances will be assumed for purposes of income tax to have received family allowances, and will be given the deduction from income of only $100 in respect of such child. Taxpayers who are not now claiming family allowances for children eligible for them should make application for them to commence in the new year when the proposed measure will take effect.

We are also proposing a complete overhauling and simplification of the rate schedules and a substantial reduction in tax liability. The present normal tax, the graduated tax, the formula for calculating the refundable portion which is no longer collected, and the family allowance recovery tables will be replaced by a single schedule of graduated rates applying on the excess of income over the new exemptions. Under the new schedule the initial rate will be 22 per cent on the first $250 of income in excess of the exemptions, the next rate will be 25 per cent on the following $750 of income, the next 28 per cent on the next $1,000, and the rate will rise gradually until a rate of 85 per cent is reached on income in excess of $250,000. The investment income surtax will be retained at the rate of 4 per cent, but as a measure of alleviation for the lower income groups the exemption for this tax which is now $1,500, will be raised to $1,800.

In revising a tax structure so complicated as our present one, it has not been possible to assure that all taxpayers will receive the same relative amount of tax relief. We have, however, tried to make the new schedule as fair and equitable as possible. As I have said, something over 550,000 persons now paying income tax will be wholly exempt under the new law. For taxpayers immediately above the new exemptions, the reduction in tax under the new schedule is of the order of 50 per cent to 75 per cent, and this scales down to about 10 per cent to 15 per cent for the majority of taxpayers.

To illustrate in detail the effect of the new exemptions and rates, there have been prepared tables comparing the present and the proposed tax at selected income levels for single persons. married persons without children, and married persons with two children receiving family allowances. I shall now place these tables on *Hansard* for the information of hon. members and the public at large.

Present and Proposed 1947 Income Tax

Income	Single Person 1946 Tax	Single Person Proposed 1947 Tax	Married person—No children 1946 Tax	Married person—No children Proposed 1947 Tax
$	$	$	$	$
700	11	—	—	—
750	25	—	—	—
850	49	22	—	—
1,000	77	55	—	—
1,250	140	118	14	—
1,500	208	180	84	—
2,000	370	313	194	118
2,500	526	453	337	243
3,000	692	593	491	383
4,000	1,070	896	810	663
5,000	1,452	1,206	1,158	973
7,500	2,495	2,058	2,117	1,793
10,000	3,622	3,038	3,160	2,723
20,000	9,264	7,900	8,634	7,488
30,000	15,453	13,400	14,655	12,988
50,000	29,319	26,091	28,185	25,641
75,000	47,953	43,515	46,399	42,991
100,000	67,483	62,016	65,509	61,491
200,000	149,776	143,441	146,122	142,841

Note: In calculating the above taxes it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

Married Person with Two Children of Family Allowance Age

The table below compares the position of a taxpayer with two children of family allowance age under the new tax rates and the new treatment of family allowances proposed for 1947 with his position in 1946. To make this comparison the combined effect of the receipt of family allowances and payment of income tax must be shown in each year. This combined effect is shown in the columns headed "Net Position". Plus figures in this column indicate that the amount of the family allowance exceeds the amount of income tax payable by the amounts shown. The other figures indicate a net liability after offsetting the family allowance against the income tax. Comparison of the "Net Position" figures for 1947 with those for 1946 will give the taxpayer the net improvement in his position in 1947, reflecting either an increase in net benefit or a reduction in net liability. This computation assumes a family allowance payment of $72 for each child, which is the average payment under the family allowance scale.

	Position in 1946			Position in 1947		
Income	Income tax(a)	Family allowance	Net position	Income tax	Family allowance	Net position
$	$	$	$	$	$	$
1,300	14	144	+130	—	144	+144
1,500	42	144	+102	—	144	+144
1,750	80	144	+64	11	144	+133
2,000	141	144	+3	68	144	+76
2,250	216	144	72	130	144	+14
2,500	276	144	132	193	144	49
2,750	338	144	194	257	144	113
3,000	403	144	259	327	144	183
4,000	561	—	561	607	144	463
5,000	892	—	892	911	144	767
7,500	1,809	—	1,809	1,725	144	1,581
10,000	2,811	—	2,811	2,647	144	2,503
20,000	8,285	—	8,285	7,378	144	7,234
30,000	14,305	—	14,305	12,878	144	12,734
50,000	27,835	—	27,835	25,521	144	25,377
75,000	46,050	—	46,050	42,851	144	42,707
100,000	65,160	—	65,160	61,351	144	61,207
200,000	145,772	—	145,772	142,681	144	142,537

(a) Includes the family allowance recovery where the family allowance is shown in the next column. It is assumed that family allowances are not generally now received above the 100 per cent recovery rate. In any case where they are received to obtain the correct amount of present income tax the full amount of the family allowance should be added to the figures shown in the first column for incomes of $4,000 and up. The net position would, however, be unchanged.

Note: In calculating the income tax payable it has been assumed that all incomes up to $30,000 are entirely earned incomes, and that incomes of more than $30,000 include earned income of that amount and additional investment income to make up the total.

The over-all effect of the proposals I have outlined will be to reduce income tax revenue in a full year, assuming the present level of incomes, by approximately $143 millions, or about 23 per cent, and will involve the payment of additional family allowances in the amount of $12 millions per year, making a total cost of $155 million, about one-quarter of our expected revenue from this tax before the proposed reduction. This illustrates the thorough-going character of the revision and the importance of the reductions which we are now making. It will be recalled that the reduction now proposed is to be added to the flat 16 per cent reduction in income tax rates announced in last year's budget. However because the new rates will take effect only as from January 1 next, the loss of revenue in the current fiscal year will not be large—it is now estimated at about $25 million.

In addition to the over-all revision of the personal income tax structure I have just outlined I am proposing several other amendments in particular provisions of the law. One of these affects the taxation of husband and wife where both have incomes of their own. Prior to 1942 where husband and wife each had incomes in excess of the exemption limits the husband lost the marital allowance and he and his wife were taxed as single persons. As a means of encouraging married women to take employment in wartime the law was amended in 1942 to allow the husband to retain the marital allowance if his wife's income represented earnings received from an employment. I am now proposing that effective January 1, 1947, we return to the position as it stood prior to the enactment of this wartime measure, with the result that in 1947 a husband and wife each having incomes in excess of $750 will each be taxed as a single person.

I am also proposing a further change that will place the taxation of husband and wife on a more equitable basis than it has been in the past and bring our law into closer conformity with that of other countries. The effect of the change I am introducing will be that when a taxpayer's wife has income of her own in excess of $250, the marital allowance of $1,500 claimed by the husband will be reduced by the excess of his wife's income over $250. This rule will apply where the wife's income is $750 or less. If her income is in excess of that amount, as I stated a moment ago, the husband and wife will be taxable as single persons on their own separate incomes. If the wife's income is less than $750, then the husband may claim the married allowance of $1,500 but he must reduce the $1,500 by the amount by which his wife's income exceeds $250. In effect, the husband will be given the full marital allowance, which is granted in consideration of his wife's dependence on him, only when his wife's income does not exceed $250 a year. When the wife's income exceeds this amount, however, the $1,500 allowance granted the husband is reduced in proportion to the excess of her income over $250. This amendment will apply from January 1, 1947.

There are certain minor amendments which I should like to mention now without, however, giving complete details regarding them. For example, after January 1 of next year members of the armed forces will be treated for tax purposes on the same basis as civilians except those outside the western hemisphere who have not by that time gone into the permanent force. Also, the special provisions relating to the merchant marine will be withdrawn at the end of this year.

During last year's budget debate I said that the government would give sympathetic consideration to the suggestion that farmers and fishermen whose incomes tend to fluctuate widely from year to year should be permitted to pay tax on the basis of their average income over a period of years. We are now prepared to propose a practical method of putting the averaging principle into effect for these particular groups of taxpayers.

The proposal involves giving the farmer or fisherman the benefit of having his income taxed on the basis of a three year moving average. For the year 1946 and subsequent years, all farmers and fishermen who wish to take advantage of the right to average their incomes for tax purposes over a three-year period will be required to file returns each year whether or not they have taxable incomes. In 1948, all farmers and fishermen who have made returns for 1946 and 1947 will be entitled to average their incomes for the three years 1946, 1947 and 1948 and to pay in respect of 1948, not the tax for that year, but the tax which would have been payable over the three-year period had they earned the average income in each of the three years less the amount of tax actually paid in respect of 1946 and 1947. This means, of course, that in some cases the farmer or fisherman may be entitled to a refund in respect of 1948 of some of the taxes he has paid in respect of 1946 and 1947.

There will be no compulsion on a farmer or fisherman to accept this method of calculating his tax but it will almost certainly be to his advantage to do so. I say this in order to impress upon both farmers and fishermen the importance of making returns each year from now on. When the committee stage is reached, I shall outline the method in more detail.

Another problem affecting farmers to which a great deal of consideration has been given is the treatment of the "basic herd" in the case of a live stock farm or a ranch. The Department of National Revenue has, I believe, been following the practice of allowing adjustments of income over the preceding five-year period in the case of abnormal dispersal or liquidation sales. The general adoption of the three year forward averaging system which I have just announced should be of great assistance in more normal cases where a live stock herd is being maintained but annual live stock sales may vary from year to year. Several suggestions for carrying the basic herd principle further have been made and in this connection I must acknowledge the help received from various hon. members. Most of these, however, involve maintenance by the farmer of accounting records of greater or less complexity and whether they will prove practicable from the standpoint of both the farmer and the tax administration is a matter which will have to be worked out by the administrative officials in consultation with the Department of Agriculture.

There are certain other amendments which I can only mention. An alternative formula to that now in the law will be provided for determining the tax exempt portion of pensions received from pension trust funds formerly under section 5 (1) (h) of the act, and a change will be made in the method of taxing lump sum payments from superannuation funds, other payments received on retirement and payments received for loss of office. A method will be adopted for spreading the return from the sale of literary, dramatic, musical or artistic work over the period in which the author was engaged in its composition. There will also be a revision of the present law as it applies to a person resident in Canada for only a part of the taxation year, and finally there will be an amendment providing that where an elected member of a provincial legislature is paid an allowance for expenses incidental to the discharge of his duties the allowance will be deemed not to be taxable income to the extent of not more than one third of the aggregate of his normal sessional indemnity as a member and the expense allowance.

CORPORATION INCOME TAX AND EXCESS PROFITS TAX

Turning to the taxes on corporations and the profits of business enterprises, the house will recall the general reduction I announced a few minutes ago when referring to the implementation of our obligations under the wartime tax agreements. Under those agreements the dominion's specific obligation is "to reduce its rate of tax on corporation incomes by at least ten per cent of such incomes." To-day the ordinary corporation income tax is 18 per cent and there is also a minimum tax on all corporate incomes of 22 per cent under the Excess Profits Tax Act, making an aggregate flat rate tax of 40 per cent. In addition, the excess profits tax takes 20 per cent of any income in excess of 116⅔ per cent of standard profits. The proposal we are now making is to reduce the flat rate tax from 40 to 30 per cent and to make it all corporate income tax rather than an aggregate of the two types of tax.

I had hoped to be able to announce in this budget the repeal of the Excess Profits Tax Act, in its entirety, effective as of January 1, 1947. As I explained last year, this tax was designed as a war measure and has received overwhelming support as a necesasry instrument of war finance, but it has distinct weaknesses and limitations in normal times and is not to be accepted as a permanent part of our tax structure. Experience, however, has shown that we are still living in highly abnormal times, the shadow of the war is still upon us, and as I have shown the financial burdens on the dominion budget arising out of the war are still of huge proportions. After careful consideration the government has reached the conclusion that the act should stay on the statute books for another year unless provision is made at the next session of parliament for its earlier repeal. However, we are proposing that it be further amended in such a way as (1) to make it apply solely to corporations, thus releasing from its provisions all partnerships and sole proprietors; and (2) to reduce the rate of tax applicable to excess profits from 20 per cent to 15 per cent.

These changes in corporate income and excess profits taxes are estimated to result in a reduction in tax revenues of $135 million for the full year 1947. However, as they are to become effective only in respect of profits earned or deemed to have been earned after January 1, 1947, the loss in revenue during the present fiscal year is likely to be small, perhaps of the order of $5 to $10 million.

Certain minor amendments will also be made affecting the corporation income tax and the excess profits tax. One of these relates to the provision introduced in 1944 for permitting half the expenditure on maintenance and repairs in an early post-war period to be charged back to the income of the war period, in order to compensate for maintenance that had to be deferred under war conditions and which had thereby increased artificially the income subject to excess profits tax. For reasons which will be discussed when the resolution is reached in committee, the time has not yet arrived when we can proclaim the period in which this provision can be applied, and we propose to restrict its use to those who have paid tax on profits in excess of standard profits.

Other minor amendments to corporation income and excess profits taxes will provide for the extension for another year of the tax credits now granted in respect of exploration expenses incurred in the petroleum, natural gas and mining industries, with an adjustment in the amount of the credit appropriate to the reduced rate of corporation tax and an extension of a tax credit for expenditures incurred in deepening an existing oil well. The exemption from excess profits tax given certain classes of mines will be continued and exemption will also be granted from one-half the 30 per cent rate of corporation income tax on the first three years' operations of mines of this class coming into production in the three year period commencing January 1, 1947. The special limitation on the deductibility of charitable donations in computing the taxable income of corporations will be rescinded with respect to fiscal periods ending after June 30, 1947, and certain adjustments will be made in the taxation of investment trusts and non-resident-owned investment corporations.

TAX TREATMENT OF COOPERATIVES

I come now to the tax treatment of cooperatives. Hon. members will recall that in November, 1944, a commission under the chairmanship of Mr. Justice Errol McDougall of the court of king's bench, Quebec, was appointed to inquire into this thorny question, and that the commission made its report a very short time before the presentation of last year's budget. Accordingly, it was decided to defer action until there had been an opportunity for all concerned to give the report thorough study.

I am now in a position to say that in general the government accepts the commission's report as the basis of its proposals with respect to the taxation of trading cooperatives, credit unions and mutual insurance organizations.

The first recommendation of the commission is that we should repeal section 4 (p) of the Income War Tax Act, the section which was inserted in the act in 1930 to authorize an exemption for specified classes of cooperatives under certain conditions. The reasons for this recommendation are summarized in the report as follows:

As a result of the ambiguities of language and the difficulty of administering the section, and because we are of the opinion there is no general class or group of cooperative associations in Canada to-day whose income should be declared not to be liable to taxation, we are of the opinion that the section in its present form cannot survive the attacks made upon it.

The government accepts this recommendation and, accordingly, proposes that section 4 (p) be repealed. Apparently the section has little or no value in any case, for whatever the original intention of parliament may have been, the methods of doing business followed by our ordinary types of cooperatives are not such, in the opinion of the law officers of the crown, as to enable them to secure exemption under this section.

The commission recommended in effect that cooperatives be placed in a position of tax equality with other forms of business enterprise. This principle is sound but it is by no means easy to apply. What is the taxable income of a cooperative? There may be some cooperatives which so conduct their affairs as to have no taxable income within the meaning of the Income War Tax Act. There may be others which so conduct their affairs as to have a very limited income within the meaning of the act. There are, moreover, a variety of payments in proportion to patronage, which for want to a better term I shall call patronage dividends, the status of which is by no means clear. Let me quote a passage from the report of the McDougall commission:

. . . the (cooperative) association is, to some extent, obligated to make return to the members in proportion to patronage. These returns resemble in part an ordinary price rebate or discount. However, their amount is affected by the efficiency of management of the association and a variety of unpredictable circumstances beyond its control. It may be affected also by revenue from the investments of the association in bonds or other securities. It may be influenced as well by the policy the association follows with respect to engaging in business with non-members and granting patronage returns to the latter. On the other hand, if satisfactory returns of this kind are not made, it is probable that the membership and the business of the association will decrease. Functionally, then, the so-called patronage dividends may partake of the nature of a return of profits to the members, or a return of excess charges, or a return of investments, or an expense of the association.

While it will be seen that the commission recognized the complex and ambiguous character of these so-called patronage dividends, it took the general position that such of these payments as are made readily available to the members or customers should be considered income of the members or customers and not of the cooperative association. To avoid discrimination it advised that a similar attitude be taken towards patronage dividends distributed by ordinary companies, partnerships or individual business enterprises.

These simple rules for the tax treatment of patronage dividends would appear to offer the basis of a reasonable solution for an extremely vexatious problem. It will be observed, however, that they involve a departure from one of the cardinal principles of our tax system, for they recognize as a deductible item a distribution which represents in some cases and to some extent at least, as the commission pointed out, a distribution of trading profits. In other words, if all distributions in proportion to patronage are wholly freed from tax, a cooperative association or an ordinary company could reduce the taxes it might otherwise have to pay by distributing its income in one form rather than another, for example, in the form wholly of patronage dividends which would be non-taxable rather than in the form partly of patronage dividends and partly of dividends on share capital which are taxable. The trading cooperative which recognized an obligation to pay interest or dividends on its capital prior to the distribution of patronage dividends would under such conditions pay a greater proportionate tax on its income than the trading cooperative which did not recognize such an obligation. It will be agreed that a tax law having such a discriminatory effect and which could be used to reduce taxes that would otherwise be payable under our law is to be avoided if at all possible.

One possible alternative would be to dispense with any special legislation with regard to these so-called patronage dividends, relying on appeals to the courts to establish the status of the payments under the general tax laws. But this might mean prolonged litigation during which cooperatives and other companies would be in a very unhappy position and it is doubtful whether in the end any principles of wide and ready application would be established by the courts.

After careful consideration, the government has, therefore, come to the conclusion that it should accept the commission's recommendation that patronage dividends and similar payments be treated as a deduction from income subject to one relatively minor limitation designed to avoid at least some of the discriminatory effects I have mentioned. The limitation is this: that no company or association shall be able to go so far in its distribution of tax-free patronage dividends as to reduce its taxable income below a reasonable return on capital employed in the business. This reasonable return will be defined as three per cent on the capital employed, including borrowed capital, less the interest paid by the company or association on borrowed capital that is allowed as an expense in the computation of the taxpayer's income. The principle underlying this rule is that amounts set aside out of taxable income to be distributed in proportion to patronage by a cooperative or company which does not pay at least three per cent on the capital employed in its business contain earnings which arise from the employment of capital and ought not to escape tax entirely. For many cooperatives which pay patronage dividends this modification of the commission's recommendation will have little or no effect, for they already recognize an obligation to pay interest or dividends equal to at least three per cent on capital or retain undistributed income on which tax will be payable. Share capital with a limited dividend and with limitation of voting to one share per member rather than one vote per share was a characteristic feature of the plan of organization of the Rochdale Equitable Pioneers Society, the real founders of the cooperative movement. Cooperatives of this character will usually be able to claim the full amount of their cash patronage dividends as a deductible allowance. Any cooperative which does not set aside as taxable reserves or pay as interest or dividends a total amount equal to three per cent of capital employed, will find itself subject to tax on a portion of the amount it had set aside out of its income to distribute on the basis of patronage.

It is proposed that this provision relating to the deductibility of patronage dividends shall come into effect for taxation years ending in 1946.

The first step in determining the tax liability of a cooperative or any other company will therefore be to compute its taxable income in the ordinary way. In this computation the cooperative or company will continue to be able to claim as an expense payments that are found to be enforceable obligations of the cooperatives and not profit-sharing distributions. Having determined its taxable income the cooperative or company will then be able, if the proposed amendment is adopted, to deduct distributions in proportion to patronage paid out of income in that year subject to the limitation I have outlined above.

The government agrees with the commission that to qualify as a deduction from taxable income, patronage dividends should be paid shortly after the end of the fiscal year and on the same basis to members and customers alike. Some cooperatives which finance on the so-called "revolving fund" principle allocate their surplus each year in proportion to patronage, but make the cash distributions in respect of such allocations in a later year. Patronage dividends allocated but not paid in years subsequent to 1941 will be allowed as a deduction to the extent previously indicated in any year from 1946 or during which they are paid.

Following the commission's recommendation the proposed amendment will also make it a condition of deductibility for the future that the cooperative or company shall hold forth the prospect to its customers prior to the commencement of its taxation year that distributions will be made on a patronage basis. In the case of a cooperative, it will be sufficient that the statute under which it is organized, its charter, its by-laws or a contract with its customers holds forth this prospect. In the case of any other company, the requirement will be an advertisement in a newspaper circulating in the area in which the company does business.

Finally, the government accepts the commission's recommendation that newly-formed cooperatives which commence business after December 31, 1946, be exempt from tax for a three-year period. This concession is intended to assist only bona fide cooperatives consisting entirely of individuals organized under provincial cooperative law going into business for the first time which do not acquire directly or indirectly the assets or good will of an exis ing business, and there will be other suitable safeguarding provisions to assure the true intent of the provision.

I am not sanguine enough to believe that these proposals will meet with complete approval, either in this house or outside. Some will continue to urge complete tax exemption for cooperatives or an even more liberal attitude than has been proposed with respect to patronage dividends. Others will contend that we are going too far in allowing patronage dividends as a deduction from taxable income under any circumstances. As long as it is necessary to retain a tax on corporate profits it will be impossible completely to reconcile these conflicting points of view. In the meantime the best that can be hoped for is a reasonable working arrangement which preserves substantial equity between competing forms of enterprise and safeguards the essential interests of the treasury.

So far I have been dealing with proposed changes in the law to clarify the tax position of cooperatives and patronage dividends for the future. Even if these are adopted, however, cooperatives and ordinary companies which have been paying patronage dividends during the past few years will still be uncertain as to their position under the present law. This is purely an administrative matter, but it is so important to the interests concerned as to call for some statement of government policy.

From 1930, when the section was enacted, until about 1940, section 4 (p) of the Income War Tax Act was interpreted by the tax officials as giving complete exemption to the vast majority of cooperative organizations. During 1940, however, serious doubts were raised as to the correctness of this view and in January, 1941, the Department of Justice was asked for a ruling in the cases of the Manitoba, Saskatchewan and Alberta wheat pools. In the opinion of the department all three wheat pools are taxable under the present law. This opinion was notified to the parties concerned during 1941 and 1942. Immediately thereafter the Department of Justice was asked to consider whether patronage dividends paid by the wheat pools, the United Grain Growers and certain other elevator companies were allowable deductions in the computation of income for tax purposes. In February, 1943, the department gave its opinion that in none of the cases submitted were patronage dividends an allowable deduction.

In view of these opinions the government felt it desirable to bring the wheat pool cases before the courts for final determination, and the Department of Justice advised that the most practical method of doing so was to issue an assessment which the pools might appeal. This was done. The pools thereupon appealed but when the McDougall commission was appointed further proceedings were stayed.

The commission was not asked to make recommendations with regard to the obligations of taxpayers under the existing law but it did feel called upon to make a general comment, which I shall quote:

> One proposal made to us was that any recommendations for taxing cooperative associations should apply retroactively. Were it not that this point was pressed upon us with some insistence, we would pass it in silence. We do not regard it as any part of our function to make any recommendations which, if enacted into law, would affect the rights or obligations of taxpayers under the existing law. It is the duty of those charged with the responsibility of administering the Act to apply its provisions as they understand them. If doubt or uncertainty arises, the courts are always available both to the taxpayer and to the crown to establish their respective rights and obligations. Having regard, however, to the ambiguities contained in section 4 (p) of the Income War Tax Act and the resulting (though understandable), hesitant administrative practice in applying it, we are of the opinion that cooperative associations have so conducted their affairs that great hardship would result should our recommendations be made to apply retroactively. We also feel that many of them would be prejudicially affected if the existing law should be interpreted so as to make them liable for payment of taxes for the period subsequent to the enactment of section 4(p). Believing as they did, and not discouraged in that belief by the administrative attitude, we venture the hope that those cooperative associations which have, in good faith, conducted their affairs in the light of a possible, even plausible, construction of the section in question will be accorded relief from payment of taxes on patronage dividends actually or constructively paid to their members or customers, since the enactment of section 4 (p).

In general, the government agrees with the position taken by the commission and it proposes, therefore, to act on the principle of good faith in assessing cooperatives which are found to be taxable under the existing law. Acting on this principle, provision will be made whereby the income tax administration will not be required to collect tax from any cooperative in respect of any year during which it had reason to believe it was exempt and in respect of which it was led to believe by the income tax administration that it was exempt. While this means that the great majority of cooperatives will be substantially relieved from tax obligation with respect to years subsequent to 1930, the government agrees with the commission that to revive at this late date tax claims in cases such as those mentioned above might cause great hardship to hundreds of small enterprises.

As I have indicated, however, there are some cooperative organizations, notably the wheat pools, which have had reason to believe for some years that they would be subject to tax. The administration will endeavour to apply the same principle of good faith in making assessments in these cases. To be specific, the government is willing to relieve the wheat pools from any liability for tax for fiscal years earlier than those ending in 1942. Furthermore, the government is willing to allow as a deduction from taxable income patronage dividends, refunds of excess charges, and similar amounts actually paid in cash by the wheat pools in fiscal years ending in 1942 and 1943, but not in 1944 and 1945 because well before 1944 these organizations were aware of the legal opinion of the Department of Justice. Patronage dividends distributed or set aside for payment pending settlement of the tax issue by the private elevator companies and the United Grain Growers will be accorded the same treatment as similar payments made by the wheat pools, that is, if the wheat pools accept the foregoing basis of settlement, they will be allowed as a deduction from income for the taxation years up to and including 1943 but not for later years.

Under all the circumstances, the government believes this is a most reasonable compromise and offers it as a basis of settlement. If it is not acceptable to the organizations concerned, the courts must determine the legal position.

Before I leave the subject of cooperatives, I may add that we are accepting the main recommendations of the McDougall commission regarding the taxation of mutual organizations carrying on the business in Canada of fire, casualty and automobile insurance. Such organizations will henceforth be subject to income tax but dividends on or refunds of premiums to policyholders, whether paid in cash or applied against renewal premiums, together with any unabsorbed premiums or premium deposits returned to or payable to policyholders, and any other amount credited to a policyholder or subscriber in such a way that it is exigible by him on giving reasonable notice may be deducted in computing taxable income. To prevent discrimination, joint stock companies carrying on the same line of business will similarly be allowed to deduct dividends paid or refunds of premiums to policyholders in computing taxable income. Credit unions which derive their incomes primarily from loans made to members and federations of credit unions will continue to be exempt from tax. Also the tax free status of organizations which derive all their premium income from the insurance of churches and schools will be preserved.

APPEAL BOARDS

There is an important announcement I should like to make with regard to a proposed new feature of our income tax system.

As the house is aware, there has been an increasing demand from taxpayers for a less expensive and more convenient method of appeal from income tax assessments. A special committee set up in another place to examine into the provisions and workings of the Income War Tax Act, has made a careful study of the present appeal procedure and some recommendations which are extremely useful. Their main suggestion was for the setting up of a board of tax appeals. It is proposed to accept this suggestion with certain modifications.

The proposed board will be appointed by the governor in council and will consist of a chairman and two assistant chairmen, having specified legal qualifications, and not less than three nor more than nine other members. The board will be a court of record and will hear in various parts of Canada appeals from income tax assessments for the year 1946 and succeeding years. Appeals may be taken from decisions of the board of tax appeals to the exchequer court. The rules of procedure before the board will be such that taxpayers will, without great expense to themselves, have a convenient method of obtaining judicial decisions in disputed income tax matters.

The proposed board will decide questions of fact and law in the same manner as any other court. It will not, however, have the power to exercise or review the discretions vested in the Minister of National Revenue by the Income War Tax Act. It is proposed to provide for the review of these discretions in a different way.

There is some complaint about the existing provisions of the law in so far as these discretions are concerned. After careful consideration, the government has concluded that an advisory board, separate altogether from the appeal board to which I have referred, should be set up to advise the Minister of National Revenue upon the exercise of certain of his discretionary powers. The house will recall that under the Excess Profits Tax Act a board of referees was set up to advise the minister with regard to standard profits. The government's proposal is to establish an income tax advisory board, consisting of a chairman and not less than two and not more than six other members, to which a taxpayer may require the Minister of National Revenue to refer for hearing, consideration and advice, decisions made by the minister in the exercise of specified discretionary powers. I may add that instructions are being given to the interdepartmental drafting committee to explore carefully the possibility of reducing the number of discretions now vested in the minister or at least of providing for their exercise under regulations approved by the governor in council.

SUCCESSION DUTIES

The only changes proposed in the Succession Duties Act are the new schedule of rates and the provision for the system of tax credits which I have already described. The new rates will apply in the case of deaths occurring on or after January 1. 1947. It is estimated that the new rates will yield a gross revenue of $48-50 million in a full year, which will, of course, be reduced by the amount of the credits allowed against the dominion duty in any province which wishes to remain in the field.

EXCISE TAXES AND DUTIES

In the general field of excise taxes only minor changes will be made. The tax on cigars, for example, will be revised by replacing the present graduated schedule of excise tax rates by a flat ad valorem rate of 25 per cent and reducing the excise duty from $3 per thousand on cigars to $1 per thousand. This revision will place the cigar tax on a more equitable and more efficient basis and will result in a slight increase in revenue. Consequent upon the adoption of the McDougall commission's recommendations in regard to the application of the income tax to mutual fire and casualty insurance companies, the rates of premium tax on the various classes of such companies will be reduced as set out in the resolutions.

TARIFF

Members of the house will recall that in connection with the budget resolutions of last session I referred to the then impending trade discussions of an international character and went on to state that "the present is not the time, by isolated or unilateral action, to change the existing tariff in any particular." Although six months have elapsed, I am to-day in much the same situation as I found myself in last November. The proposed international negotiations on various aspects of commercial policy, including tariffs, are still ahead of us. But the time-table that had appeared feasible last fall has proved impracticable, having in mind the large number of governments that have indicated a desire to participate in what are bound to be complicated and protracted discussions. In the interval there has been a quite important change in the setting of the proposed negotiations, in that these are now directly under the ægis of the united nations organization, through its economic and social council. The council has appointed a preparatory committee for an international trade conference, on which committee are represented those countries which intend to take part in the negotiations.

In the circumstances I have deemed it inadvisable to introduce at this time anything in the nature of comprehensive or important tariff changes or changes of a type that may soon be the subject of tariff negotiations with other countries from which we may desire and reasonably expect tariff concessions. Subject to this general principle there are proposed a number of minor adjustments in the tariff to which I need not refer in detail. No increases are proposed. Some changes are to facilitate administration, some embody the provisions of outstanding orders in council passed under the War Measures Act, some reflect small changes in wording of items resulting from technological advances, some affect reductions designed to reduce costs in cases where the item amended would have virtually no importance in trade negotiations and one is related to a reduction being proposed in excise duties.

CONCLUSION

The proposals which I have now announced will, it is estimated, result in a reduction of our tax revenues by about $254 million in a full year under economic conditions similar to those at present, and an increase in family allowance payments, directly related to the tax changes, of $12 million, making a total cost of $266 million. This does not take into account any further reductions due to income tax and succession duty credits that will be given to taxpayers of provinces remaining in these fields. These and other effects of the offer to provinces cannot, of course, be estimated until we know what provinces plan to accept it.

For the current fiscal year, the tax reductions and the other proposals I have announced will have only a relatively small effect on our revenues and expenditures because the important tax changes become effective only as of January 1 next. and the new agreements with the provinces will commence, at least in most cases, only at the beginning of the next fiscal year. There will probably be a reduction of personal income tax revenue of about $25 million, an increase of about $3 million in the cost of family allowances, and a decrease in excess profits tax and corporate income tax revenue, taken together, of about $10 million.

The house will recall that on the basis of the present tax structure I forecast a budget deficit for the current year of roughly $260 million. As a result of the changes proposed in this budget, the deficit appears likely to be increased to roughly $300 million. This means that we will be covering nearly 90 per cent of our expenditures from revenues, a more rapid approach to the balancing of the budget than I expected to be possible some months ago.

While it is too early to predict the situation in the following fiscal year, that is, 1947-48, we may reasonably look forward to a further substantial decline in our expenditures, particularly for national defence and for veterans' benefits, and as a result of the termination and liquidation of war contracts. There may be some moderate increases in certain other expenditures and perhaps also decreases in certain revenues such as special receipts, but if we succeed in maintaining high employment and income we should be able to look forward to something like a balanced budget in that year.

Of course, in that year, as in this one, we shall need to borrow in order to finance loans and investments. But the scale of our borrowing should be smaller than in the current year. This year we must finance not only the anticipated deficit of $300 million but also the large programme of loans, advances and investments which, as I have already indicated, may involve a sum in the neighbourhood of a billion dollars. While we began the year with a large cash balance, a considerable portion of it was in currencies other than Canadian and government requirements will necessitate a fairly high cash balance at the end of the year. Apart from refunding or repayment of debt, borrowing requirements for the year may be estimated at roughly a billion dollars. This is a great deal less than the figure for last year but it is nevertheless a substantial part of the total savings which the Canadian people and their institutions will make during the year. We must therefore continue our efforts to encourage savings and their investment in government securities, including the proposed Canada saving bonds which I announced last week.

In conclusion, I would like to stress one thought. We Canadians can achieve great objectives if we can agree among ourselves upon those objectives and devote our energies to reaching them. That is clearly shown by what happened in the war. Now that the war is over, we have an opportunity to select and to achieve objectives just as challenging, just as exciting as those of war, but of a constructive and progressive nature. I believe that the Canadian people, if properly informed, are prepared to agree, by and large, upon great peacetime objectives and to devote to their attainment something of the same spirit and energy which made our war achievements possible. It is the duty of all of us in government, in business, in labour, in agriculture, to do all that we can now to make possible that agreement upon ends and upon means which will enable Canada in peace to be worthy of the record of Canadians at war.

INCOME WAR TAX ACT

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

1. That for the 1947 and subsequent taxation years the present rules for computation of personal income tax be replaced by the following schedule of graduated rates:

On the first $250 of income or any portion thereof, 22 per cent per annum; or

$55 upon the income of $250; and 25 per cent upon the amount by which the income exceeds $250 and does not exceed $1,000; or

$242.50 upon the income of $1,000; and 28 per cent upon the amount by which the income exceeds $1,000 and does not exceed $2.500; or

$662.50 upon the income of $2,500; and 31 per cent upon the amount by which the income exceeds $2,500 and does not exceed $4,500; or

$1,282.50 upon the income of $4,500; and 34 per cent upon the amount by which the income exceeds $4,500 and does not exceed $6,500; or

$1,962.50 upon the income of $6,500; and 38 per cent upon the amount by which the income exceeds $6,500 and does not exceed $8,500; or

$2,722.50 upon the income of $8,500; and 42 per cent upon the amount by which the income exceeds $8,500 and does not exceed $10.500; or

$3,562.50 upon the income of $10,500; and 46 per cent upon the amount by which the income exceeds $10,500 and does not exceed $13.000; or

$4,712.50 upon the income of $13,000; and 50 per cent upon the amount by which the income exceeds $13,000 and does not exceed $18,000; or

$7,212.50 upon the income of $18,000 and 55 per cent upon the amount by which the income exceeds $18,000 and does not exceed $30.000; or

$13,812.50 upon the income of $30,000 and 60 per cent upon the amount by which the income exceeds $30,000 and does not exceed $50.000; or

$25,812.50 upon the income of $50.000 and 65 per cent upon the amount by which the income exceeds $50,000 and does not exceed $70.000; or

$38,812.50 upon the income of $70,000 and 70 per cent upon the amount by which the income exceeds $70,000 and does not exceed $100,000; or

$59,812.50 upon the income of $100.000 and 75 per cent upon the amount by which the income exceeds $100,000 and does not exceed $150.000; or

$97,312.50 upon the income of $150,000 and 80 per cent upon the amount by which the income exceeds $150,000 and does not exceed $250,000; or

$177,312.50 upon the income of $250.000 and 85 per cent upon the amount by which the income exceeds $250,000.