

CANADA

BUDGET SPEECH

DELIVERED BY

HON. SIR THOMAS WHITE, M.P.
MINISTER OF FINANCE

IN THE

HOUSE OF COMMONS

TUESDAY, FEBRUARY 15

1916

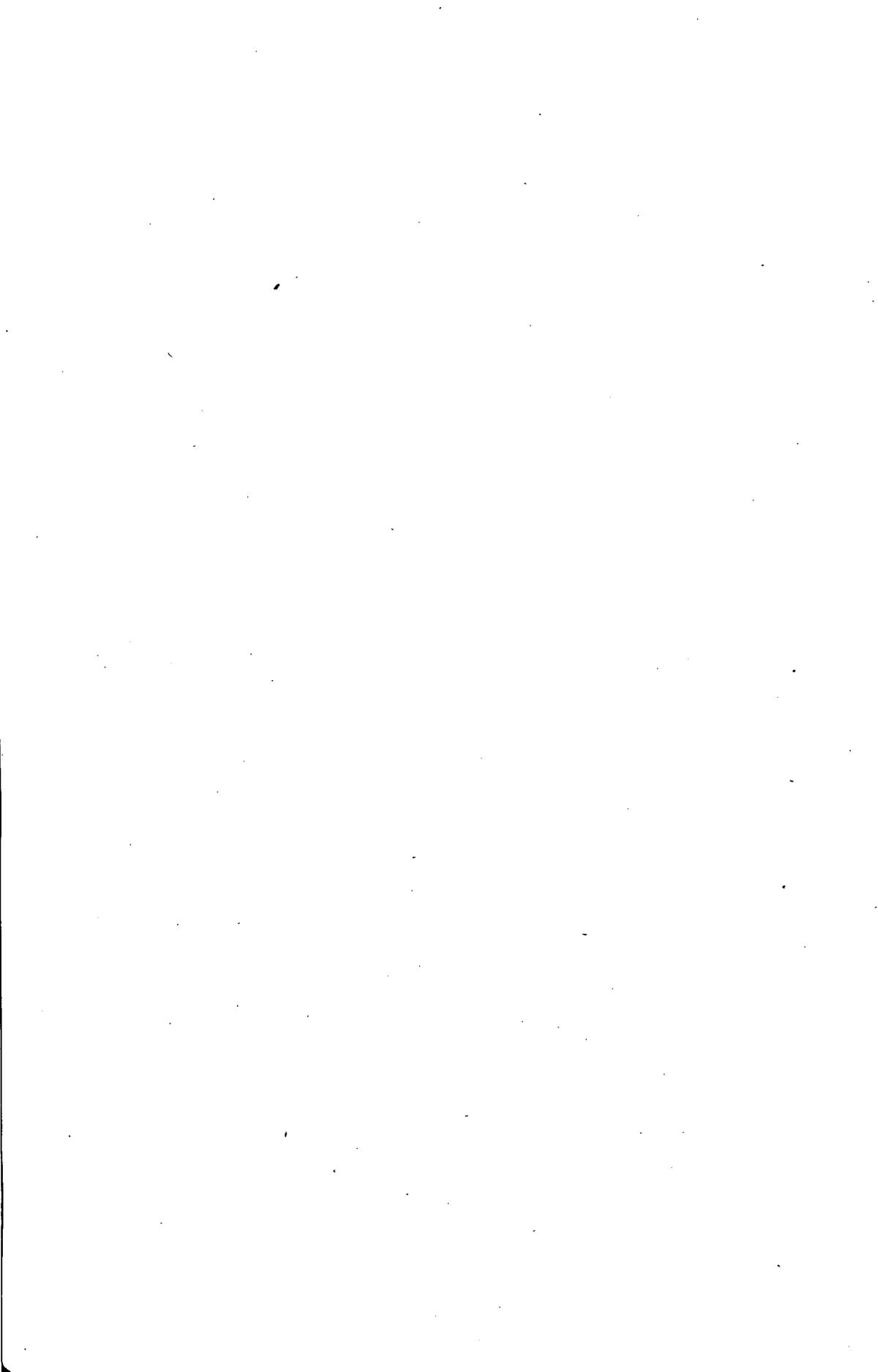


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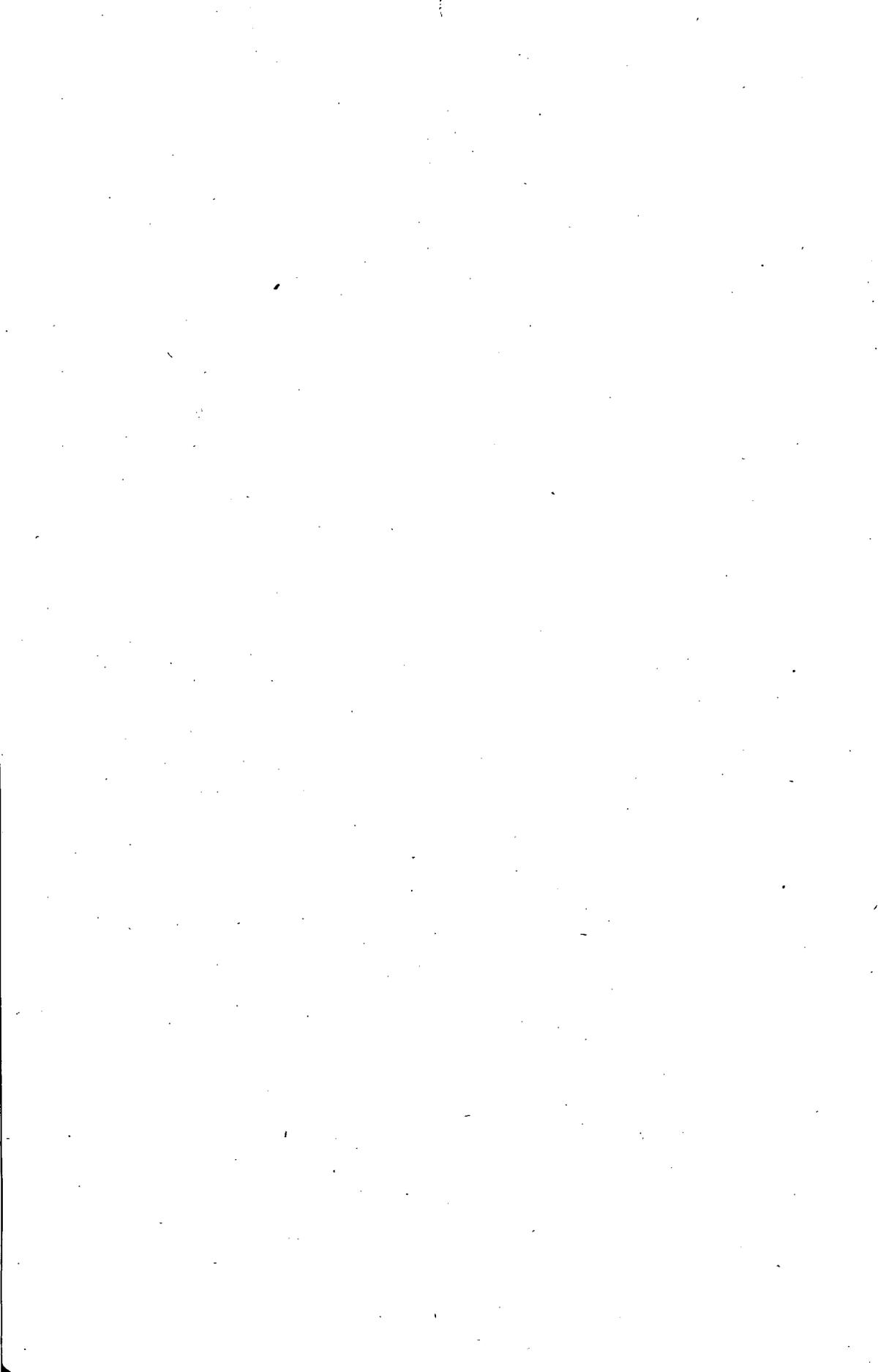
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HOUSE OF COMMONS, TUESDAY, FEBRUARY 15, 1916

WAYS AND MEANS—THE BUDGET.

Sir THOMAS WHITE (Minister of Finance) moved:—

That the Speaker do now leave the Chair for the House to go into Committee of Ways and Means.

He said: The Budget of February last, by a comprehensive scheme of general and special taxation, aimed to increase the revenues of the Dominion for the present fiscal year to an aggregate of \$150,000,000. I am happy to be able to inform the House that the expectations then formed have been realized in a degree beyond our most sanguine hopes, and that for the present fiscal year ending on March 31st next we confidently anticipate a total revenue of at least \$170,000,000, that is to say, \$20,000,000 in excess of our estimate. From the date of the introduction of the Budget the sharp monthly declines which had been experienced in our customs duties were at once arrested, and our revenues until August restored to the basis of the corresponding months of the year preceding the outbreak of the war. Since August a marked and continually progressive increase has characterized our monthly revenues as compared with those of the corresponding period of the previous year, when the profound derangement of finance and commerce resulting from the war was exercising so serious an effect upon our imports and general business. From the beginning of the present fiscal year up to February 10th the total revenue of the Dominion from all sources has amounted to \$145,000,000, an

increase of \$31,000,000 over the same period of the preceding year. Of this revenue the sum of \$82,000,000 has been derived from duties of customs; \$19,000,000 from excise; \$14,000,000 from post office receipts; and about \$3,000,000 from the special taxes other than postal levied under The Special War Revenue Act of last year. Of the amount of customs duties mentioned, the sum of \$19,000,000 was derived from the increased duties levied under The Customs War Revenue Act.

CIVIL EXPENDITURE 1915-16.

In the Budget of last year I stated it to be the policy of the Government that new works would not be undertaken until the financial outlook became clearer, and we should have in view the source of funds from which to meet the expenditure. This policy has been rigidly followed. Only works actually under contract have been proceeded with and civil expenditure has been kept within close bounds. As a result, our outlays for the year for purposes other than those of the war have been much less than the estimate of the Budget. Up to the present our expenditure on ordinary account has been in round figures \$93,500,000, a decrease of over \$13,000,000 as compared with the same period of the previous year. On capital account our expenditures—principally upon such works as the National Transcontinental Railway, the Quebec bridge, Halifax terminals, improvements to the St. Lawrence Ship Channel, the Welland Ship Canal, and the Hudson Bay Railway—have amounted to \$30,500,000, a decrease of \$7,000,000 over the corresponding period of the previous year.

Taking into account our increased revenue on the one hand and our decreased ordinary and capital expenditure on the other, it will be seen that, apart from the cost of the war, there has been an improvement in the financial position of the Dominion for the period since April last of no less a sum than \$51,000,000. The improvement for the entire fiscal year will probably reach \$57,000,000.

WAR EXPENDITURE 1915-16.

During the last session, Parliament passed a War Appropriation Act for \$100,000,000. This was the second Act of the kind, the first having been passed at the special session following upon the outbreak of the war and providing for an amount of \$50,000,000. The Prime Minister will introduce at this session a further measure providing for an additional sum of at least \$250,000,000. The number of our troops having grown by successive steps to 50,000; to 100,000; to 250,000,

with a present authorized establishment of 500,000, our war expenditure has correspondingly increased and has now reached very large figures. From the outbreak of war to the end of January, 1916, it has amounted to \$158,000,000.

From what I have said it will be gathered that the general position of our finances has been that while our revenues have been substantially increasing and our ordinary and capital expenditures materially declining, our war expenditure has been mounting rapidly. Our problem has therefore been one of raising money to fill the gap between revenue and total outlay, and I turn now to describe the financial operations of the year.

LOAN ISSUES 1915-16.

We entered upon the present fiscal year with £3,000,000 of Treasury Bills maturing in June. We had also a bank indebtedness of \$5,000,000. These Treasury Bills were retired upon maturity and our bank indebtedness has been paid off. The Dominion Government has no outstanding Treasury Bills in the London market and is not overdrawn with any financial institution. On the contrary, we have, at the present time, very large balances to our credit both at home and abroad. In fact, the Government is financed until the beginning of next summer.

Our loan transactions for the year have been as follows:—

In March last we made an issue in London of £5,000,000 of four and one-half per cent debenture stock maturing 1920-25. The issue price was 99½ and the offering was over-subscribed.

In August we made an issue in New York of \$25,000,000 of 5 per cent notes maturing August 1, 1916, and of \$20,000,000 of 5 per cent notes maturing August 1, 1917, or a total issue of \$45,000,000. These notes were sold at the price of par and 99½ respectively, less a commission of ¾ of 1 per cent, and are convertible into 5 per cent bonds of the Dominion of Canada, maturing August 1, 1935. The purpose of this loan was to provide for expenditure upon public undertakings under contract and other capital outlays throughout the Dominion.

In November we offered to the Canadian public a domestic loan of \$50,000,000 of 5 per cent ten-year bonds, the issue price being 97½, payable in instalments extending over the period from November, 1915, to May 1, 1916. This issue, as is well known to the House, was most enthusiastically and patriotically received by the people of Canada, with the result that it was more than doubly subscribed. In view of this response and the earnest desire on the part of private investors and financial and other institutions who had subscribed for large amounts to participate in the loan, the authorized amount was doubled and an allotment made of \$100,000,000 of these securities. It

chanced that at the time of this issue the Imperial Government, owing to adverse sterling exchange conditions which had for some time prevailed, were at a serious disadvantage in making payment for munition and other orders placed in Canada. To assist in overcoming the difficulty and to facilitate further purchases in Canada the Government placed the sum of \$50,000,000 from the proceeds of the domestic War Loan to the credit of the Imperial Treasury. This credit is now being availed of for the purpose mentioned.

In my last Budget speech I explained to the House the arrangement made by the Government for advances by the Imperial Treasury towards our war expenditure. The total amount of such advances to date has been £27,000,000. It will be gratifying to the House to learn that since the beginning of the period of serious decline in sterling exchange from June onwards, the Government has been able to finance all our war expenditures in Canada without assistance from the Imperial Treasury. Had we been obliged, during the period in question, to bring funds for this purpose from London to Canada, we should not only have made a heavy loss on the transactions but would have been in direct competition with the Imperial Treasury in selling sterling exchange for the purpose of meeting their obligations maturing due upon orders for munitions and supplies placed on this side of the Atlantic. By reason of our improving revenues and our borrowings in the United States and Canada, it has not been necessary for us to negotiate any sterling bills since June of last year.

OUTCOME OF 1915-16.

As closely as we can estimate, the financial outcome of the present fiscal year will be as follows:—

Revenue from all sources	\$170,000,000
Ordinary expenditure	125,000,000
	<hr/>
Surplus	\$ 45,000,000

As the proceeds of the American loan, which was specially made to meet capital expenditure, have been more than sufficient for the purpose (the expected expenditure under this heading being \$40,000,000) it has been possible for the Government to devote its entire surplus, estimated at \$45,000,000, as stated, in payment of the principal of our war expenditure. The House of course understands that in our ordinary expenditure is embraced the entire interest charge upon our public debt, which includes our war borrowings. Ordinary expenditure also includes pensions.

Briefly, then, the result of the present year's transactions as to revenue and expenditure may be summarized as follows. We borrowed in the United States the amount required for our capital expenditures. Our revenues will exceed our ordinary expenditure by \$45,000,000. This \$45,000,000 we devote to the payment of our war expenditure. By the end of the year the net national debt will stand at about \$580,000,000, an increase of \$181,000,000 during the year.

ECONOMIC CONDITIONS 1915-1916.

Turning from the financial transactions and position of the Government to the general affairs of the country, we find much cause for gratification and thankfulness. Business has adjusted itself in a remarkable way to the altered conditions. We have been blessed with a most bountiful harvest, the greatest by far in the history of the Dominion and this, coupled with the demand for war material, supplies and munitions, has given such stimulation and impetus to trade and industry that, notwithstanding the war, we are experiencing a high degree of prosperity. Probably the most outstanding feature of our national economy during the year has been the extraordinary change which has taken place in our international trade balance. For the fiscal year 1912-13 it was adverse to the extent of over \$300,000,000; in 1913-14 of \$180,000,000; and in 1914-15 of \$36,000,000. For the present fiscal year it seems certain that we shall have a favourable trade balance in the neighbourhood of \$200,000,000. That so great a change has been effected in one brief year is a striking tribute at once to the marvellous productivity of the Dominion and to the capability, industry, and thrift of our people. Our total trade for the year will aggregate approximately \$1,200,000,000, an increase of nearly \$200,000,000 in exports, and a slight reduction in imports. This is the largest aggregate trade in the history of the Dominion.

On the financial side stability continues to be maintained. The statements of our great monetary institutions disclose a position of growing strength. The savings of the public are rapidly increasing in volume, thus ensuring adequate credits for the commercial, industrial and agricultural needs of the community. Although, since the outbreak of the war, borrowing for our capital requirements has been possible in Great Britain only on a greatly reduced scale, our provinces, municipalities, railway, industrial and other corporations have resorted with a marked degree of success to the investment markets of the United States, where a strong demand exists for their securities.

While these features of our economy are significant and encouraging in the extreme, we must continually keep before us the salient fact that we are participants in a war, the greatest in all history, still being waged on an increasing scale, with undiminished vigour and with no prospect of early termination. Indeed, all signs seem rather to point to prolongation until the issues shall have been determined by superior resources on the one hand and exhaustion with collapse on the other. To win the war with the decisiveness which will ensure lasting peace, the Empire will require to put forth its full collective power in men and in money.

From this viewpoint it is our true policy to augment our financial strength by multiplying our productive exertions and by exercising rigid economy which reduces to the minimum all expenditures upon luxuries and non-essentials. Only in this way shall we be able to make good the loss caused by the withdrawal of so many of our workers from industrial activities, repair the wastage of the war, and find the funds for its continuance. It cannot be too frequently or too earnestly impressed upon our people that the heaviest burdens of the conflict still lie before us, and that industry and thrift are, for those who remain at home, supreme patriotic duties upon whose faithful fulfillment our success and consequently our national safety may ultimately depend.

Apart altogether from these higher grounds, it is to be pointed out that in so far as our present prosperity is based upon abnormal prices for our produce and upon the production of war material, it is precarious and transient and dependent upon the continuance of the war and its conditions. On ordinary business grounds alone, the prudent husbanding of resources and the wise conservation of profits are dictated by the plainest considerations of practical wisdom and good sense. It is in the spirit of these remarks that I now approach the consideration of our financial estimates and programme for the coming year.

FISCAL YEAR 1916-17.

It is well to make it perfectly clear at the outset that notwithstanding the satisfactory increase in revenue and our diminishing civil expenditures, the burden of financial administration will be much heavier in the coming than it has been in the past year. The last War Appropriation Act authorized an expenditure of \$100,000,000. The War Appropriation Act of this session will authorize an expenditure of \$250,000,000, all of which, and possibly more, will be required for the raising, equipping, transporting and maintenance of our rapidly increasing forces. The all-important question, therefore, to be con-

sidered is "How shall we provide the money?" There are only two sources from which it can legitimately come, namely, from revenue and from borrowing. The Government is resolutely determined to maintain the standard of our currency and not to resort to the issue of unsecured paper money, which is merely a forced loan without interest, leading to depreciation and the gravest economic evils which can afflict a nation. In this connection it will be of interest to the House to know that our gold reserves held against Dominion notes amounted to \$115,147,985, or 64.2 per cent of the outstanding circulation.

As regards our ordinary and capital expenditure, we shall endeavour to continue to effect all possible reductions. Our estimates contain numerous items hitherto adopted by Parliament, representing works with which it is not our intention to proceed during the period of the war. The policy adopted from its outbreak, which has given such excellent results to date, of proceeding only with works actually under contract, will continue to guide us. Further, should financial exigency so require, we shall not hesitate to terminate contracts and leave works in an unfinished condition, notwithstanding the immediate and prospective loss and damages involved. I do not, however, think that such a course will be necessary.

So far as we can estimate, our ordinary expenditure for the coming year will amount to about \$135,000,000 as compared with \$125,000,000 for this year and \$135,000,000 for last year. Our capital estimates are \$30,000,000 as compared with \$46,000,000 for this year. Adding the ordinary and capital expenditure we look forward to a total civil expenditure for the year of \$160,000,000 as compared with \$165,000,000 for the present year and \$187,000,000 for last year. It must be borne in mind that included in our ordinary expenditure for the coming year is the sum of \$36,000,000 representing charges upon our public debt, of which sum no less than \$20,000,000 represents increased interest due to our war borrowings; and a further sum of \$2,000,000 for pensions payable on account of the war. In making a comparison between our ordinary expenditure for the coming year and that of preceding years, these important items aggregating an increase due to the war of \$22,000,000 must be taken into account.

Should it seem expedient, we shall feel justified in borrowing, as we did during the present year, for our capital expenditure. Assuming that this is accomplished, we should have on the basis of present revenue a surplus of \$35,000,000 to apply upon our war expenditures. This would leave the sum of \$215,000,000 additional to be borrowed for the war. Adding to this our proposed borrowing for capital expenditure, we are confronted with an increase of public debt during the coming year of nearly \$250,000,000.

FINANCIAL POLICY IN WAR TIME.

The question has often been discussed as to the true financial policy of a nation in time of war. Some have strongly favoured the policy of large borrowing; others have insisted that the cost of a war should be defrayed by a nation at the time it is being waged. Obviously, in a war such as this, the latter course would be impossible. The truth seems to be that it is not practicable for all nations to adopt the same policy or for any nation the same policy at all times. The circumstances and conditions of individual nations must be taken into consideration. If a country has much accumulated wealth, a policy of drastic taxation would appear to be advisable. With a country such as ours, rich in potential resources, certain of future development and great expansion of production and population but without at present large accumulations of wealth, it would appear to me that we are justified in placing upon posterity the greater portion of the financial burden of this war, waged as it is in the interests of human freedom, and for their benefit in equal if not in greater degree than for our own. Canada in future years of peace, with the prosperity which will be her heritage from the development of unbounded resources, will be well able to meet the interest and sinking fund charges upon such debt as we shall be obliged to incur in defence of our country and its liberties. From an example the House will more readily see what I have in mind. Let us assume that our indebtedness on account of this war will reach \$500,000,000. At 5 per cent the annual interest will amount to \$25,000,000. This sum with a substantial amount added yearly for a sinking fund could in my opinion be met, provided strict economy be practised by Governments, from the future revenues of the Dominion. In national finance, if debts can be funded, the practical question is that of payment of annual interest. But while this is so, the fact must not be overlooked that debt is debt, a financial obligation and burden upon the body politic, whether owed to investors at home or abroad. In making these observations it is my earnest desire that neither the House nor the country will gather the impression that we underrate the magnitude of the liabilities which we are assuming or the gravity of the financial considerations involved in our participation in this great struggle. We believe, however, that the people of Canada desire the Government to put forward the maximum of effort in the cause, and that they will, both for the present and the future, be prepared to cheerfully bear whatever burdens may be entailed upon them in consequence.

While I have stated, as I think correctly, what the general policy of Canada should be so far as relates to our war finances,

I do not desire to be understood as saying that we should not endeavour to raise by taxation a considerable part of our war expenditure. On the contrary, it is my view that it is our clear national duty and supremely in the interest of our credit to provide what we reasonably can without impairing our economic strength. To attempt more would mean too drastic taxation upon a community whose trade and commerce have been seriously interrupted and affected by war conditions, and unduly heavy burdens upon a people already contributing generously of their substance to funds and organizations whose patriotic object is the comfort and well-being of our soldiers and the dependents they have left behind. In connection with taxation, there is another feature which we must also bear in mind, namely, that Canada is a country inviting immigration, and we must be careful not to create the impression that it is likely to become a country of heavy individual taxation. In this connection I think it opportune to state on behalf of the Government and as enunciating its settled policy, that in providing our war expenditure resort will not be had to taxation upon the farms, personal effects or incomes of those engaged in our great basic industry of agriculture.

TAXATION AND LOANS, 1916-17.

With these preliminary observations as to general financial policy applicable at this time, I approach the consideration of our taxation proposals and financial program for the coming year. By the last Budget we increased (with certain exceptions) the general and intermediate tariff rates by seven and a half per cent, and the preferential rates by five per cent. We also imposed special taxes upon banks, insurance, loan and trust companies, and upon cheques, money orders, telegrams, railroad, sleeping-car and steamship tickets, letters and postal cards, and upon wines and certain other commodities. At the time this broad measure of taxation was imposed, many were of opinion that the war might not last through the year, and the measures then adopted were regarded as adequate to meet the needs of the military establishment we had then in view, viz., one hundred thousand men. With the altered situation which I have before mentioned, in which we have recruited troops to the number of 250,000, and are aiming to increase these to 500,000, it is manifest that we must devise further ways and means of meeting the expenditure necessary to organize and equip the new contingents and maintain our entire forces.

TARIFF PROPOSALS.

As to taxation measures we have no tariff proposals to offer except the following. We propose to alter the duty payable on

apples to 90 cents per barrel. We regard this duty as indispensably necessary for the preservation of the apple growing industry of Canada and particularly that of British Columbia, which has been most seriously affected since the outbreak of the war. We also propose a duty of one-half cent a gallon on oils, petroleum, not including crude petroleum imported to be refined, or illuminating or lubricating oils, .8235 specific gravity or heavier at 60 degrees temperature. This change will include heavy distillates that are now assessed duty at two and one-half cents a gallon and which have been chiefly imported into the prairie provinces. We expect this item will yield a revenue of about \$500,000. The goods covered by the tariff proposals will be exempt from the provisions of The Customs Tariff War Revenue Act, 1915.

BUSINESS PROFITS TAX.

For the reasons which I gave in my last Budget Speech we regard it as inexpedient to consider, for the present at least, the imposition of a direct income tax. We find, therefore, the area of taxation considerably restricted. In estimating further sources we have carefully considered the question of what class or classes can best bear the burden of further special taxation, because it is an axiom of taxation that the burden should fall upon those in the community best able to bear it. Now, Mr. Speaker, there are in time of war many businesses and industries, which for one reason or another are able to maintain profits above the average return to capital in time of peace. There are others whose profits arise directly from the manufacture of munitions or the furnishing of supplies in connection with the war itself and are in some instances of abnormal character. It has appeared to the Government that persons, firms, and corporations whose profits have been such might well be called upon to contribute a share to the carrying on of the war. Their position being advantageous as compared with less fortunate fellow-citizens, it is just that a portion of their advantage should be appropriated to the benefit of the State. In this connection we have prepared a measure which I propose to introduce to the House, providing for the taxation of profits in excess of a certain percentage upon capital engaged in all classes of business and industry, including railway, steamship, public-utility, financial, commercial, milling, mining, and industrial enterprises. We have fixed upon a rate of profit in the case of corporations, individuals and firms which may be taken as a fair annual return in normal times. We propose to impose taxation to the extent of one-fourth of the amount of net profits upon capital derived since the outbreak of the war in excess of this fixed rate. To particularize, our proposal is as follows:—

Upon all incorporated companies carrying on business in Canada, excepting life insurance companies, which are otherwise dealt with, and those engaged in agriculture, we propose to impose a tax of one-fourth of the net profits for every accounting period ending since the outbreak of the war in excess of seven per cent upon paid-up capital. Provision is made for determining the profits and paid-up capital made and employed in Canada in the case of non-Canadian companies carrying on business in Canada and subject to the tax.

Upon individuals, firms, partnerships, and associations, we propose a tax of one-fourth of the net profits for every accounting period ending since the outbreak of the war in excess of ten per cent upon the capital engaged in their business.

The taxation will not apply to persons, firms or companies whose capital is less than \$50,000. This limitation will not, however, apply to those engaged in manufacturing or dealing in munitions and material of war and supplies for war purposes. The duration of the measure will be limited to August 3, 1917. Banks and companies which are already taxed under the provisions of The Special War Revenue Act, 1915, shall, during the period of the measure now proposed, be exempt from taxation under its provisions to the extent to which they are taxed under the said Special War Revenue Act. The yearly taxation under this measure will be payable on or before the first day of November in each year. The first payment will therefore not be called for until next November.

It will be observed that incorporated companies are taxed upon a higher basis than individuals and partnerships. The reason for this is that capital in the case of joint stock companies frequently represents intangible assets or capitalized earning power or goodwill. We found it a practical impossibility to go behind the capitalization of companies and endeavour to ascertain the precise cash value of their assets as can be done in the case of individuals or partnerships. The cases of railway, public franchise, and so-called holding companies, mining and other corporations, illustrate the difficulty to which I am referring. In addition there is the further fact that shareholders have purchased their shares and receive their dividends upon the basis of issued capital stock.

Provision is to be made for preventing evasion of taxation by further stock issues or the incorporation of companies for the purposes of taking over existing businesses. Provision is also to be made for preventing the postponement of the taking of profits on orders and contracts wholly or partially performed.

I am unable to give the House an accurate estimate of what this measure of taxation will realize, but we believe its results will be very substantial—probably as much as twenty-five or thirty million dollars for the period mentioned. In

committee I shall be pleased to give more detailed information. It is to be borne in mind in connection with the subject of war profits, which have been much discussed, that many of our industrial companies were obliged during the period immediately succeeding the outbreak of the war to pass their preferred and other dividends owing to the general depression which then prevailed.

From my statement it will be gathered that what we propose is a very comprehensive measure of taxation, not confined to those who have since the outbreak of war made more than their usual profits, but applying to all businesses, whether in existence before the war or established after its outbreak, whose profits exceed the percentages which I have mentioned.

No doubt in the administration of this legislation some anomalies will arise, but these are inseparable from any comprehensive scheme of taxation upon a numerous class of the community. I am confident that those upon whom the burden will fall will gladly make the contribution which it calls for to the cause for which we are contending.

These, Mr. Speaker, are the taxation proposals which we have to submit for the consideration of the House at this time, and in connection with them I beg leave to lay upon the table the following resolutions:—

1. Resolved that it is expedient to amend Schedule A to the Customs Tariff, 1907, and to strike thereout tariff items 92 and 267, the several enumerations of goods respectively, and the several rates of duties of customs, if any, set opposite each of the said items, and to provide that the following items, enumerations and rates of duties be inserted in said Schedule A:—

Tariff Items.	British Preferential Tariff.	Intermediate Tariff.	General Tariff.
92. Apples per barrel	60 cents.	90 cents.	90 cents.
267. Oils, petroleum, (not including crude petroleum imported to be refined or illuminating or lubricating oils) '8235 specific gravity or heavier at 60 degrees temperature. per gallon	$\frac{1}{3}$ cent.	$\frac{1}{2}$ cent.	$\frac{1}{2}$ cent.
267 a. Crude petroleum in its natural state, '7900 specific gravity or heavier at 60 degrees temperature, when imported by oil refiners to be refined in their own factories.	5 p. c.	7 $\frac{1}{2}$ p. c.	7 $\frac{1}{2}$ p. c.

Provided, however, that the goods hereinbefore enumerated shall be exempt from the rates of duties of customs specified in section 3 of The Customs Tariff War Revenue Act, 1915.

2. Resolved that any enactment founded on the foregoing resolutions shall be deemed to have come into force on the 16th day of

February, 1916, and to have applied to all goods mentioned in the foregoing resolutions, imported or taken out of warehouse for consumption on and after that day, and to have also applied to goods previously imported for which no entry for consumption was made before that day.

Resolved, That it is expedient to provide

1. That, in the following resolution, "Minister" means the Minister of Finance of Canada; "non-Canadian company" means an incorporated company having its head office or principal place of business outside Canada but having assets in or carrying on business in Canada; "person" means any individual or person and any partnership, syndicate, trust, association or other body and any body corporate, and the heirs, executors, administrators, curators and assigns or other legal representatives of such person, according to the law of that part of Canada to which the context extends.

2. That there shall be charged, levied and paid to His Majesty a tax of twenty-five per centum of the amount by which the profits arising from any trade or business subject to the tax in every accounting period ending after the fourth day of August, one thousand nine hundred and fourteen, exceeded, in the case of incorporated companies, seven per centum, and, in the case of all other persons, ten per centum, upon the capital employed in such trade or business.

Provided, however, that the amount paid or payable by any person under the provisions of Part one of The Special War Revenue Act, 1915, shall be deducted from the amount which such person would otherwise be liable to pay, and the Minister shall have power to determine any questions that may arise in consequence of the difference of the several periods for which the taxes under the said Act and those proposed herein are payable.

3. That the accounting period shall be taken to be the period for which the accounts of the trade or business have been made up, but where the accounts of the trade or business have not been made up for any definite period or for the period for which they have been usually made up, or if a year or more has elapsed without the accounts being made up, the accounting period shall be taken to be such period and ending on such a date as the Minister may determine.

4. That the trades and businesses to which the tax shall apply are all trades and businesses, including the business of transportation, (whether continuously carried on or not) of any description carried on, or partly carried on, in Canada, except:—

- (a) any trade or business other than a trade or business which, or any portion of which, is the manufacturing or dealing in munitions of war or in materials or supplies of any kind for war purposes, the capital employed in which is less than fifty thousand dollars;
- (b) the business of Life Insurance;
- (c) the business of farming and stock raising.

COMPUTATION OF PROFITS.

5. That the profits shall be taken to be the net profits arising in the accounting period.

(2) The profits of a non-Canadian company shall be such proportion of the net profits as shall bear the same proportion to the total amount of its net profits as the capital of the company as defined herein bears to the total amount paid up upon its capital stock.

(3) No deductions from gross profits for depreciation or for any expenditure of a capital nature for renewals, or for the development of a trade or business, or otherwise in respect of the trade or business, shall be allowed except such amount as appears to the Minister to be reasonable and to be properly attributable to the accounting period.

- (4) Any deductions made from the gross profits for the remuneration of directors, managers and persons concerned in the management of the trade or business shall not, unless the Minister, owing to any special circumstances, otherwise directs, exceed the sums deducted for these purposes in the last accounting period ending before the fourth day of August, one thousand nine hundred and fourteen, and no deductions shall be allowed in respect of any transaction or operation of any nature where it appears, or to the extent to which it appears, that the transaction or operation has improperly reduced the amount to be taken as the amount of the profits of the trade or business.
- (5) In the case of any contract extending beyond one accounting period from the date of its commencement to the completion thereof and only partially performed in any accounting period there shall (unless the Minister, owing to any special circumstances, otherwise directs) be attributed to each of the accounting periods in which such contract was partially performed, such proportion of the entire profits or estimated profits in respect of the complete performance of the contract as shall be properly attributable to, such accounting periods respectively, having regard to the extent to which the contract was performed in such periods.

CAPITAL.

6. That the capital employed in the trade or business of an incorporated company having its head office or other principal place of business in Canada shall be the amount paid up on its capital stock.

7. That the capital employed in the trade or business of a non-Canadian company shall be such portion of the amount paid up on its capital stock as shall bear the same proportion to the amount paid up on its entire capital stock as the value of its assets in Canada bears to the value of its assets outside Canada.

8. That the Minister may determine the amount of the capital of any incorporated company issuing stock after the fifteenth day of February, one thousand nine hundred and sixteen, and if, after the said fifteenth day of February, one thousand nine hundred and sixteen, the capital stock of any incorporated company is increased or additional stock is issued, or if the stock is in any way changed or reorganized in such a manner as to increase the amount of the capital, the Minister may decide whether or not it is fair and proper to include such increase or any part thereof when determining the capital of such company, and the decision of the Minister shall be final and conclusive.

9. That the capital employed in the trade or business of any person other than an incorporated company shall be taken to be the value of all assets real and personal, movable and immovable, used in connection with such trade or business:—

- (a) so far as the capital consists of assets acquired by purchase the value shall be the price at which such assets were acquired, subject to any proper deductions for depreciation or replacement, or for unpaid purchase money; and
 - (b) so far as the capital consists of assets being debts due to the trade or business the value shall be the nominal amount of those debts, except bad debts proved to be such to the satisfaction of the Minister; and
 - (c) so far as the capital consists of any other assets which have not been acquired by purchase the value shall be the value of the assets at the time when they became assets of the trade or business, subject to any proper deductions for depreciation or replacement.
 - (d) Accumulated profits employed in the business shall also be deemed capital.
- (2) Any borrowed money or debts shall be deducted in computing the amount of capital.

- (3) Where any asset has been paid for otherwise than in cash the cost price of that asset shall be taken to be the value of the consideration at the time the asset was acquired.

10. That provision be made requiring persons liable or believed to be liable to make such returns as may be necessary to assess the tax; and that provision also be made for the assessment of the several persons liable to taxation; for the appointment of a Board of Referees to determine assessment appeals; for a further appeal to the Exchequer Court of Canada; and for the collection of taxes, interest and costs in the Exchequer Court of Canada and other courts of competent jurisdiction.

FINANCIAL PROPOSALS, 1916-17.

I have now to direct the attention of the House to the matter of the borrowings by which we shall supplement our revenues to the full amount necessary to meet our war expenditure for the coming year. At present we are, as I have stated, financed as to our requirements in Canada until the beginning of summer. We have, however, a large body of troops—over 100,000—overseas, whose pay and cost of maintenance run into large figures, and will continually increase as its number increases. To pay and maintain these forces abroad we should, if we relied entirely upon our own resources, be obliged to raise the money here and purchase exchange on London, as the expenditure in question is made in Britain and on the Continent. To provide this money, and as an efficient safeguard to our own financial situation in Canada, we arranged last fall for a total authorized loan of £30,000,000 from the Imperial Treasury, to be availed of, if necessary, at a rate not exceeding £2,500,000 a month during the present calendar year. In connection with this loan I may point out that with the large invisible balance of interest payments amounting to about \$150,000,000 annually, which Canada owes to Great Britain on past indebtedness, and our annual interest debit of \$37,000,000 to the United States, we should, if an arrangement of the kind was not effected, be obliged to export gold to Great Britain or to the United States to the amount of a part at least of our war expenditure abroad. While this arrangement absolutely ensures the stability of our finance for the year, it will be our most earnest endeavour to avail ourselves as little as possible of this generous provision on the part of the Imperial Government, sustaining, as it is, the heavy burden of financing its own unparalleled war expenditures, and making loans on a vast scale to the Allies. Further, it is our intention, to the extent we may be able, to make advances in Canada to the Imperial Government to facilitate its additional purchases here of munitions and supplies. Some plan of the kind, either with the Government or with our banks or business interests, would seem, in the present state of sterling exchange, to be necessary if such purchases are to continue, at least on the large scale which has obtained during the past year.

In considering the question of future loans, it is to be pointed out that while there is considerable money on this continent for short-date investment, the amount obtainable diminishes and the rate of interest increases with length of term. My personal view of the policy to be followed in war finance is that it is preferable to face the higher rate payable on long-term issues rather than to make repeated short-date issues whose maturities may have to be provided for by payment or renewal at times when further funds have to be raised for fresh war expenditures. Moreover, it is not, in my opinion, desirable that in the period immediately succeeding the conclusion of the war the Government of the day should be hampered in its financing, in the possibly trying conditions of recuperation and reconstruction, by the necessity of funding numerous issues maturing due at brief intervals.

The conspicuous success of the recent Canadian War Loan encourages us to hope that a large portion of our requirements from this forward may be raised from our own people. There is no doubt that this can be done if the production of the Dominion continues to increase, and if strict economy and thrift are exercised by our people with the intention of investing their savings in Government securities. In considering the question of future Canadian flotations, we shall, of course, have regard to existing banking and exchange conditions, with the object of causing as little as possible disturbance to and interference with general credit conditions and arrangements.

To assist in our war financing I have to propose a legislative measure whereby life insurance companies and associations carrying on business in Canada under Dominion license will be obligated to invest and keep invested a certain portion of their assets during this and next year in the currency, bonds, or debenture stock of the Dominion. We propose that companies whose domicile is outside of Canada, but which are licensed to transact business in Canada, shall make the deposits which they are required to make in 1916 and 1917 as security for their policyholders in the Dominion in such securities, and as to Canadian companies we propose that for the same two years they shall invest in such securities one-half of the increase in their net ledger assets during the years 1915 and 1916 after making provision for increase in foreign reserves and in policy loans. Provision will be made to meet the case of foreign companies which have already made their deposits for the present year. The aggregate amount of such investments will reach a total of at least \$15,000,000. Having regard to the rate of interest which the Dominion is now paying upon its securities, there can be no hardship in such legislation either to the insurance companies or their policyholders who will obtain an investment of the highest character yielding a most attractive interest

return. I have the less hesitation in proposing this legislation because, unlike other financial companies, life insurance companies and associations have not been subjected to Dominion taxation. In connection with this measure, I desire to express my sincere thanks to the life insurance companies and associations for their prompt, generous, and patriotic response to the appeal for subscriptions to the Canadian war loan. Their holdings in this issue will, of course, be available *pro tanto* in discharge of their obligations under the proposed Act.

I now beg to give notice of a Bill intituled, "The Life Insurance Companies Investment Act, 1916," which I shall later introduce to the House.

To promote saving among the public and afford a ready means of remunerative investment in Dominion securities for funds seeking investment during the intervals between public offerings, we have determined to authorize the sale, from time to time, in principal sums of \$100 and multiples thereof, of debenture stock repayable in five years from date of issue, and bearing interest payable half yearly by cheque negotiable without discount at any branch of any chartered bank in Canada. The price will be par, and full information as to the nature and terms of the issue will be published later. The Government will reserve to itself the right to limit the amount of individual sales, and generally to deal with the issue as may be deemed advisable having regard to the national credit and requirements.

These, Mr. Speaker, are all the fiscal and financial proposals which I have to lay before Parliament in the present Budget, and it is my earnest hope that they may merit and find general acceptance. Taxation measures can hardly ever be expected to be popular, at least with those upon whom they fall. But I much mistake the spirit and temper of the Canadian people if they do not cheerfully accept as hitherto in the spirit of the loftiest patriotism and willing self-sacrifice the added burdens which the exigencies of the war compel us to cast upon them.

It may seem premature at this stage of the conflict to touch upon the question of policy to be pursued after its termination. But this I feel justified in stating, that the Government is fully alive to the importance of taking immediate action looking to the promotion of desirable immigration and land settlement, both during and after the war, and the creation of all necessary machinery and organization to that end. The future of Canada rests with the development of its great resources, of which the greatest and most fundamental is agriculture, and this development is in turn bound up with the question of increase in population of the productive sort and the facilities afforded it for the application of its intelligence and industry. It is probable that in the straitened financial conditions which may prevail for some years forward the question of capital for the develop-

ment of agriculture may be of paramount importance, and it is our intention to inquire carefully during the coming recess into this most important subject, with a view, if desirable in the public interest, to supplementing by federal aid existing facilities in this connection. Particularly will the question of the establishment of a system whereby loans at reasonable rates repayable on the amortization principle engage the attention of the Government.

CONCLUSION.

It might be assumed that in so important a deliverance as the Budget Speech I should say something as to the war and its progress. But the subject has been dealt with so ably and so eloquently by the leaders and members on both sides of the House that further reference on my part could be only superfluous. The conflict has developed and extended upon a scale and to an extent far beyond our expectations or imaginings at its inception. Looking backward over its tragic course and reflecting upon its varied fortunes, there has grown in the hearts and minds of all an ever-deepening sense of its increasing gravity and menace to the Empire's safety. But the Empire's courage, the Empire's strength have steadily grown with the growing peril. Never has our national spirit been more high, never our resolve more unshaken, never have we been more supremely confident of ultimate victory than we are to-day. We have taken the measure of our foe, we have estimated the resources of our manhood and the other elements of Imperial power, and we steadfastly abide the issue in calm consciousness of inherent strength and the eternal justice of our cause. We fight for human progress and for human rights, and we can and shall endure unto the end.

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