The importance that the sales tax has attained as a source of revenue will be seen from Table **16.** When first introduced in 1920 the tax was 1 p.c. on sales but the rate has been varied from year to year and from May 2, 1936, has been 8 p.c. A statement appears at p. 836 of the 1938 Year Book showing the changes made from the inception of the tax up to 1938. A lesser, but still substantial, source of revenue is the special excise tax on importations, instituted in 1931, the changes in rates of which are shown in a second statement.*

Recent Modifications in the System of Taxation.—A detailed sketch of the changes made in taxation from 1914 to 1926 will be found at pp. 755-759 of the 1926 Year Book, while similar information *re* tax changes in 1927 to 1929 is given at pp. 791-792 of the 1930 Year Book, for the years 1930 to 1935 at pp. 824-826 of the 1936 Year Book, for 1936-37 at pp. 837-839 of the 1938 Year Book, and for 1938 at pp. 874-875 of the 1939 edition.

The Minister of Finance in his Budget Speech of Apr. 25, 1939, outlined the financial position of Canada. Among the tax changes credit was allowed against income tax equal to 10 p.c. of the capital expenditures made by any individual, firm, partnership, or corporation in the year preceding Apr. 30, 1940. Provision was also made for extension to Jan. 1, 1943, of the period of eligibility for the three-year exemption from income tax granted to new metalliferous mines. In order to implement the undertaking made in the United States-United Kingdom Trade Agreement, the Budget exempted all but goods entering the country under the General Tariff from the special excise tax of 3 p.c. on imports. Minor changes were made in the Customs Tariff and the Income War Tax Act, while under the Excise Act the tax on spirits used in making vinegar was increased from 27 cents per gallon to 60 cents per gallon.

The Special War Budget.—On Sept. 12, 1939, at a special session of Parliament called following the outbreak of war in Europe, the Acting Minister of Finance presented a comprehensive program of tax changes intended to provide revenues to meet the additional expenditures arising out of Canada's participation in the war. The most important feature of this program was the Excess Profits Tax Act, which provides for a tax on excess profits, to be calculated on either of two bases at the option of the taxpayer. One option embodies a graduated tax on profits when calculated as a percentage of capital employed in the undertaking, while the other option embodies a tax of 50 p.c. on the increase in profits over the average profits for the four years 1936, 1937, 1938, and 1939, or the four fiscal periods of the taxpayer ending therein. It is provided that, in either case, the ordinary income tax paid may be deducted as an expense before calculating the excess profits tax.

Under the Income War Tax Act the ordinary rate of tax on corporations was increased from 15 p.c. to 18 p.c., while the rate on corporations making a consolidated return was increased from 17 p.c. to 20 p.c. A war surtax equal to 20 p.c. of the tax payable by individuals under existing income tax rates was levied. Allowance of contributions to patriotic organizations as a deduction up to 50 p.c. of net taxable income was also provided.

Under the Excise Act the duty on spirits was increased from $4 to $7 per proof gallon; the duty on Canadian brandy was increased from $3 to $6 per proof gallon;

* Pursuant to changes made in the 1939 Budget, this tax now applies only to importations under the General Tariff, and hence in the future will be of small importance as a source of revenue.