in the normal way from British exports to Canada, and Canadian tariffs on British goods were drastically reduced (in the War Exchange Conservation Acts) to make this easier. However, from Sept. 15, 1939, to Mar. 31, 1941, Britain's deficit in her balance of payments with Canada amounted to about $795,000,000. Prior to 1941 Britain was able to send some gold to Canada for Canadian dollars; this gold was transferred to the United States in part settlement of Canada's deficit of payments with that country. The large balance of Canadian dollars that the United Kingdom needed was supplied by the Canadian Government or its agencies by two methods: about $337,000,000, up to Mar. 31, 1941, was transferred to the United Kingdom in exchange for Canadian securities formerly owned there; the remainder was simply transferred to the United Kingdom in exchange for sterling balances accumulated to Canada's credit in London.

In the third War Budget (Apr. 29, 1941) it was necessary to make provision for war expenditures in the fiscal year 1941-42. Taxes were again increased very substantially, particularly personal and corporate income taxes and the national defence tax and a new tax in the form of a Dominion succession duty was introduced. Details are given at p. 747 of the 1942 Year Book.

To meet the rapidly expanding expenditures of the Dominion, on behalf of Britain and the other Allies, further steep increases in taxes and a plan of compulsory savings were introduced in the fourth Budget brought down on June 23, 1942. Total expenditures for the fiscal year 1942-43 were tentatively set at $3,900,000,000—an amount considerably in excess of all expenditures made by the Government for the entire period during and immediately following the War of 1914-18. This amount included direct war expenditures of the Canadian Government in excess of $2,000,000,000, and a credit to the United Kingdom of $1,000,000,000 to enable her to make purchases of food and equipment in Canada. It was estimated that revenues from the existing tax system would be in the neighbourhood of $1,675,000,000, leaving a gap of $2,225,000,000 between receipts and expenditures. To partly fill this gap, new and higher rates of taxes were introduced to yield an estimated additional revenue of about $375,000,000 (the principal tax increases were excise duties and taxes $66,000,000; personal income taxes $115,000,000; and excess profits tax $58,000,000), and a form of compulsory savings designed to produce about $95,000,000 in 1942-43, leaving a deficit to be financed by other means of about $1,755,000,000.

The main changes in the personal income tax were (a) the national defence tax lost its identity as a separate tax and was incorporated into the general income tax as a flat-rate "normal" tax, although at higher rates than the former rates of national defence tax; (b) the graduated rates of tax were steeply increased, and the credit for dependants was changed from a deduction from income to a deduction from tax; (c) it was provided that part of the total tax would be refunded after the War as a form of compulsory savings, although the taxpayer was required to pay this part only to the extent not offset by savings in other forms, such as life insurance premiums, principal payments on a residential mortgage and contributions to a pension or superannuation fund; (d) a plan was introduced for deduction of income