

Section 1.—Income Tax*

The income tax was instituted in 1917, as a part of what is still known as war-tax revenue. Table 16, p. 936, is the war-tax revenue table of Department of Finance, and shows the total receipts from income tax for the fiscal years 1919, the first year for which collections were made, to 1944.

It is now a war tax in name only, for even before the outbreak of the present war it had become a permanent and important part of the taxation structure, and the chief source of raising ordinary revenue. In many respects, it is an ideal form of direct taxation: in theory its incidence is admittedly fair and just, and the experience and machinery for the collection of this tax has been built up over a long period of years. As pointed out at p. 859 of the 1943-44 Year Book, the War, with its increased burden of taxation which, in turn, has made necessary the prepayment of taxes on a "pay-as-you-go" basis, has necessitated changes in the presentation of the statistics. Previously, comparisons for individuals between income assessed and tax paid were subject to the important qualification that, while the *income assessed* related to the net income upon which assessments had been approved for the year designated although the income itself was earned two years previously, the figures of *tax paid* included arrears of taxes that were assessed in previous years and even prepayments of taxes not due in the year under review. Under the present system, large sums of money are being collected month by month from individuals or their employers during the taxation year to which they apply. Analyses of *taxes paid* have not the same significance now as formerly except as indicating the trend of general collections: analyses of *taxes assessed for the taxation year* have now more significance. This new system will permit a much closer comparison between the figures of assessed income and taxes levied thereon than did the former figures of incomes assessed and taxes actually received.

The task of transferring income-tax data to the new basis would be a tremendous one even in normal times but to be called upon to make the shift at a time when the income-tax field has been extended to cover practically the entire nation adds greatly to the difficulty. It is possible to present only the initial step in the transition in the following tables.

The decision to make the change is supported by the growing interest in income-tax statistics from an economic and social standpoint. It is believed that the statistics are now of sufficient importance to be presented in the nature of a national report covering the income earned by, and the taxes levied on, all taxpayers in respect of a specific calendar or taxation year. On the new basis the statistics will be related to the year in which the income is earned by the taxpayer and all incomes earned in 1941 will be combined to form the 1941 taxation-year statistics regardless of when the assessments are made by the Department. This describes the change of basis in its broadest aspect.

Subsection 1.—Collection Statistics

Collections on a Fiscal-Year Basis.—Collection statistics are gathered by the accounting section at the time the payments are made and, therefore, have the value of being very up-to-date. Their timeliness has been enhanced within the past few years by the adoption of the "pay-as-you-go" system which results in collecting tax substantially during the year in which the income is earned and, on the average, about ten months prior to the actual filing of an income tax return by the taxpayer.

* Revised under the direction of the Deputy Minister of National Revenue for Taxation by M. F. Sprott, B. Com., Chief Statistician.