

PART III.—OUTSTANDING DEVELOPMENTS IN THE TAXATION FIELD

Prior to the War of 1914-18, the Dominion Government was able to finance its expenditures through the imposition of such indirect taxes as customs and excise duties. There were minor direct taxes imposed for other purposes than revenue but these, in the fiscal year 1914, amounted to less than 1.5 p.c. of the total revenue from taxation collected by the Dominion Government. To-day the significance of direct taxation is exemplified by the fact that direct taxation collected by the Dominion Government (including income taxes, excess profits tax, gasoline tax and succession duties) accounts for about 60 p.c. of total taxation.

The unprecedented financial demands of the War of 1914-18 began to be felt by 1915 and between 1915 and 1917 the Dominion entered the direct-taxation field with the imposition of taxes on banks, trust and loan companies, insurance companies and business profits. The income tax was introduced in Canada in the latter year and continued to be an important source of revenue in the period between the two wars. The outbreak of war in 1939 and the resulting rapid expansion of expenditures by the Dominion led to a very substantial increase in individual and corporation income tax rates, the tax on excess profits was revived and made much more severe and the Dominion entered the fields of succession duties and gasoline taxes (the latter are semi-direct) which had hitherto been imposed exclusively by the provinces.

The first reductions to be made in direct tax rates, which were at such high levels during the war years, were presented in the 1945-46 Budget and included: a reduction of 4 p.c. in individual income tax for 1945 and of 16 p.c. for 1946; reduction of the 100 p.c. rates of excess profits tax to 60 p.c. from Jan. 1, 1946; and an increase in the minimum standard profit under excess profits tax from \$5,000 to \$15,000 from Jan. 1, 1946.

The place that direct taxation has assumed in the general taxation picture and its incidence on the purse of the ordinary taxpayer has made it advisable to give this subject separate treatment but this should not detract attention from the important place that indirect taxation, through customs, excise and sales taxes, still holds in the taxation burden that the individual taxpayer is called upon to bear. (See Table 6, p. 886.)

In order to present a clearer picture of the main elements of direct or semi-direct taxation, Part III has been divided into three Sections, dealing with income tax, gasoline taxes and succession duties, respectively.

Section 1.—Income Tax*

The income tax was instituted in 1917, as a part of what was known as war-tax revenue. Before the outbreak of the War of 1939-45 it had become a permanent and important part of the taxation structure, and the chief source of raising ordinary

* More detailed information is given in the report "Taxation Statistics" published in April, 1946, by the Taxation Division, Department of National Revenue.