

## Section 2.—Federal Public Finance\*

A sketch of public finance, from the French regime to the outbreak of the First World War, appears at pp. 742-743 of the 1941 Year Book, while detailed sketches *re* tax changes from 1914 to 1938 will be found in issues of the Year Book beginning with the 1926 edition. An outline of the financing of Canada's war effort, including the more important changes in taxation during the war years from 1939 to 1945 is given at pp. 918-923 of the 1945 Year Book. Tax changes included in the 1945-46 and 1946-47 Budgets are given at pp. 883-884 of the 1946 edition, those in the 1947-48 Budget at pp. 952-953 of the 1947 edition, and those in the 1948-49 Budget at p. 964 of the 1948-49 edition.

**The 1949-50 Budget.**—The Budget for the fiscal year ending Mar. 31, 1950, was presented to Parliament on Mar. 22, 1949.† The forecast of revenue (after the tax changes outlined below) was \$2,477,500,000 and the forecast of expenditure was \$2,390,000,000. The estimated surplus was accordingly \$87,500,000. These forecasts compared with the 1948-49 actual revenues of \$2,771,395,075, expenditures of \$2,175,892,334, and surplus of \$595,502,741. The most significant feature of the Budget was the substantial abatement of personal income and excise taxes. The revenue loss from tax changes is shown in the following paragraphs.

The principal features of the tax changes were:—

**Personal Income Tax.**—Exemptions were raised for persons with single status from \$750 to \$1,000, for persons with married status from \$1,500 to \$2,000, for children eligible for family allowance from \$100 to \$150, for other dependants from \$300 to \$400. The rates of the graduated rate schedule were substantially lowered. These changes were expected to take approximately 750,000 former taxpayers off the tax rolls and assure that of the remaining taxpayers approximately 75 p.c. would pay tax at a rate of only 15 p.c. on taxable income.

**Corporation Income Tax.**—The rate of tax on the first \$10,000 of income was reduced from 30 p.c. to 10 p.c. and the rate on income over \$10,000 increased from 30 p.c. to 33 p.c. This change assured that small corporations would pay only 10 p.c. tax and that no corporation would pay more tax than under the previous rates unless its income exceeded approximately \$77,000. The carry-forward of losses was extended from three years to five years. The regulations on depreciation were changed to recognize obsolescence.

**Tax Credit for Dividends.**—Provision was made for the allowance of a credit of 10 p.c. of the amount of dividends received from common shares of Canadian paying corporations against the personal income tax of a shareholder. This change was intended to remove substantially all the double taxation of corporation earnings for small corporations with income not exceeding \$10,000, and to make the combined incidence of corporation and individual income tax (taking account of the 10 p.c. credit) the same as previously for large corporations that distributed approximately one-half of their profits.

All of the above changes became effective on Jan. 1, 1949.

**Excise Taxes.**—The excise tax structure was greatly simplified by repealing some taxes on commodities and by imposing a straight *ad valorem* tax of 10 p.c. (at the manufacturer's level) on other commodities previously taxed at various rates.

\* Revised, except as otherwise indicated, under the direction of Dr. W. C. Clark, C.M.G., Deputy Minister, Department of Finance, Ottawa.

† Copies of the 1949-50 Budget may be obtained on application from the Department of Finance, Ottawa.