

## PART II.—DEVELOPMENTS IN THE TAXATION FIELD

Prior to the First World War, the Federal 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 Federal Government. To-day, direct taxation accounts for about 49 p.c. of federal revenue.

The unprecedented financial demands of the First World War began to be felt by 1915 and between 1915 and 1917 the Federal Government 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 government expenditures 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 Federal Government entered the fields of succession duties and gasoline taxes (the latter were semi-direct) which had hitherto been imposed exclusively by the provinces.

Details of changes in the income-tax field made in the 1948-49 and 1949-50 Budgets are given at pp. 1018-1019.

The place that direct taxation has assumed in the field of general taxation 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 8 p. 1006.)

In 1942 the Federal Government entered the succession-duty field with the passage of the Dominion Succession Duty Act.

The main elements of direct or semi-direct taxation are given in the following sections, dealing with income tax and succession duties, respectively. As of April, 1947, the Federal Government gasoline tax, imposed in 1939, was repealed and therefore does not now find a place in this Part.

### 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 Second World 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 it has much to commend it, and the experience and machinery for the collection of this tax has been built up over a long period of years.

The Income Tax Act contains separate schedules of tax rates for individuals and corporations. With the advent of war, the yield of individual income tax was very substantially increased by reducing personal exemptions and increasing the rates of tax. While the high wartime personal income tax was in force a 'compulsory savings' feature was introduced. This resulted in the collection of refundable savings tax in the amount of approximately \$290,000,000 during the years

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