Section 2.—Federal Public Finance*

A sketch of public finance, from the French régime to the outbreak of World War I 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. Budgets for the fiscal years 1945-46 to 1950-51 will be found in preceding Year Books commencing with the 1946 edition. The more important post-war changes are given in the following summary.

Post-War Federal Finance.—As soon as victory was gained in Europe in May 1945, attention was focused on the problems of changing from a wartime economy to production for civilian needs while continuing the war against Japan. To encourage and facilitate the rapid resumption of production for home and export markets and to avoid uncertainty and delay in the expansion of essential civilian production an Order in Council was passed to become effective on May 14, 1945, rescinding or reducing a number of taxes that had been imposed during the War to discourage production and purchasing. By this Order, the sales tax and the war exchange tax were removed on most building materials, the war exchange tax was rescinded on machinery and apparatus used in the manufacture or production of goods, and also the 25 p.c. excise tax on electrical or gas fixtures and appliances. The wartime tax on automobiles which ranged from 25 p.c. on the first $900 to 80 p.c. on the value in excess of $1,200 was reduced to a flat 10 p.c. and the 25 p.c. excise tax on cameras, radios and phonographs was reduced to 10 p.c.

The Budget for the year 1945-46, presented to Parliament in October 1945, was, to a considerable extent, a war budget because war and demobilization expenses continued for some time at a very high level. The forecast of expenditure for 1945-46 was $4,650,000,000, about $670,000,000 below the wartime peak. The forecast of revenue, before tax changes, was $2,500,000,000 leaving a deficit of $2,150,000,000. Despite this expected deficit a number of important tax changes were announced to reduce costs, restore incentives, promote efficiency and encourage investment in the expansion of industry. These tax changes included the repeal of the war exchange tax and the exemption from the sales tax of machinery and apparatus used directly in the manufacture or production of goods. The tax levied on business proprietors and partnerships, under the Excess Profits Tax Act, was reduced and the minimum standard profits for all business was increased for purposes of computing the excess profits tax. As an interim step towards the ultimate abolition of this tax, the 20 p.c. refundable portion of the excess profits tax was abolished and the rate of tax on excess profits of corporations was reduced from 100 p.c. to 60 p.c. These changes in the excess profits tax became effective from Jan. 1, 1946. The individual income tax was also abated by 16 p.c. commencing on Oct. 1, 1945 and resulted in a reduction of 4 p.c. in the tax liability for 1945.

Experience proved that the forecasts of revenue and expenditure for 1945-46 were too low and the deficit of $2,123,000,000 was slighly less than had been anticipated and was financed by the Ninth Victory Loan, launched towards the end of 1945. This deficit brought the net debt of Canada to the all-time peak of $13,421,000,000 and marked the end of wartime budgeting.

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