

exempt from the sales tax. Exempted also from the sales tax were purchases by certain institutions caring for orphans or the incapacitated and the 5 p.c. excise tax on toilet soap was repealed.

The Budget presented in March 1950, ended one phase of post-war financing. Special post-war demobilization and transitional expenditure was nearly completed but the Government was faced with heavy fixed charges for interest on the public debt, national defence and social security. The Minister of Finance pointed out that the prospects were for Budgets to continue to call for expenditure of about \$2,400,000,000 for some years to come. On the other hand, taxes had been reduced substantially from the wartime level and foreseeable revenue for future years appeared little more than adequate to cover expenditure. All this was changed, however, by the outbreak of war in Korea in June 1950.

In September 1950, new budgetary proposals were presented by the Minister of Finance to meet the rapid step-up in defence expenditure and the sharp increase in economic activity and inflationary pressures which followed the commencement of war in Korea. To maintain a pay-as-you-go policy, a number of tax increases were introduced to cover the increased defence expenditure. The corporation income tax was increased from 10 p.c. to 15 p.c. on the first \$10,000 of profits and from 33 p.c. to 38 p.c. on profits over \$10,000. Taxes on alcoholic beverages were increased by raising the tax on spirits from \$11 to \$12 per gallon and the tax on malt from 16 to 21 cents per lb. Under the excise taxes all items formerly subject to a tax at the rate of 10 p.c. became taxable at 15 p.c. and a new tax of 30 p.c. was imposed on soft drinks, candy and chewing gum.

These new taxes, together with increased revenue as a result of rising prices and increased economic activity, were expected to bring revenue for 1950-51 to a level barely sufficient to cover expenditure. However, the effect of inflationary pressures was greater than expected with the result that revenue amounting to \$3,113,000,000 exceeded expenditure of \$2,901,000,000, giving a budgetary surplus of \$212,000,000 for 1950-51.

The Budget for 1951-52*, presented to Parliament in April 1951, indicated that sources would have to be found to produce \$375,000,000 additional revenue and a defence surtax of 20 p.c. for this purpose was imposed on incomes of individuals and corporations. Because it could only be applied to deductions from salary and wages starting on July 1, 1951, the surtax on personal income was levied at 10 p.c. of total income in 1951. For corporations the surtax applied to profits in excess of \$10,000 only, raising the rate of tax on these profits to 45.6 p.c. Further revenue was derived from the corporation income tax as a result of a provision designed to combat inflationary pressures which deferred, for four years, capital cost allowances on certain capital assets acquired after Apr. 10, 1951. The tax on cigarettes was increased by \$1.50 per 1,000; on manufactured tobacco it was increased by 48 cents per lb., although part of this increase was offset by the repeal of the tax on cigarette papers and tubes. All items formerly subject to an excise tax of 15 p.c. became

* Copies of the 1951-52 Budget may be obtained on application from the Department of Finance Ottawa, Ont.