The Structure of the National Revenue

By Sidney P. Wheelock

THE federal government of the Dominion of Canada collected in the fiscal year ending March 31, 1938, $516,692,000. This sum represents an amount of approximately $46.46 for every man, woman and child in the country (estimated population 11,120,000 in 1937). This is a sum almost exactly twenty-eight times the amount collected from a population of 3,690,000 in the fiscal year ending June 30, 1868, seventy years before. In other words, the per capita federal tax burden has been increased by 9.3 times since Confederation. This figure, perhaps surprisingly, does not have to be corrected for changes in price level. The Dominion Bureau of Statistics gives a wholesale price index of 133 for the year 1867 and of 132.1 for the year 1937.

From the time of Confederation until the Great War (which necessitated huge increases in taxation) the chief sources of federal revenue were customs and excise duties. Together these constituted 63 per cent of the total revenue in the year 1868, and 77 per cent of the total in the fiscal year ending in 1914. Today the comparable proportion is only 28 per cent.

War taxation was begun in Canada in August 1914 and continued in 1915 by increases in the customs and excise duties on various commodities. In 1915 miscellaneous new internal taxes were imposed—on bank circulation, on the income of trust and loan companies, on telegrams, railway tickets, sleeping car berths, cheques, money orders, letters and post-cards, and various other commodities and services. In 1916 the business profits war tax was introduced, and 1917 saw the introduction for the first time in Canada of the income tax —in 1938 the second largest source of revenue. The base of these taxes was widened successively in the following years, and the sales tax was introduced in 1920; in 1921 the business profits war tax was dropped. The sales tax, however, has now become the largest single source of revenue, and the various war taxes still in existence, as will be seen in the accompanying table, provide more than 58 per cent of the total revenue of the federal government.

The rate of the sales tax has varied since its inception in 1920. Then it was one per cent on sales by manufacturers and one per cent on sales by wholesalers. It was increased from time to time until it reached six per cent on sales by manufacturers or producers on January 1, 1924. Its lowest point since that time was one per cent on sales by manufacturers, a rate which obtained from May 1930 to June 1931, and its highest point eight per cent, the rate current from May 1936 to the present time.

This, in brief outline, is the structure of the federal tax system. Total taxes in the past fiscal year accounted for $449 millions out of a total revenue of $517 millions. The largest source of non-tax revenue was the Post Office, which brought an income of $35,546,000 to the national treasury. This income, however, was practically counterbalanced by an estimated expenditure on Post Office account of $33,762,000. The net income from the Post Office, therefore, is not a considerable factor in national budgeting. The second largest item of non-tax revenues was $13,120,000 of interest on government investments.

Thus we see that by adding together customs and excise duties, war tax revenues, Post Office revenues, interest on investments, and the item named "miscellaneous", we have accounted for all but about six million dollars of the national total for the year 1937-38.

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This amount includes special receipts and receipts on capital account and will not be referred to further in this article. We shall, however, examine in more detail the customs and excise duties and taxes, and the various items of the war tax revenue.

At this point, it may be of interest to bear in mind the cost of collection of the various types of revenue. Income tax revenue cost in 1938, $1.87 per hundred dollars collected. It is interesting to note that this all-Canada average conceals such widely divergent costs as $0.98 per hundred dollars in the Toronto district, and $10.05 per hundred dollars in the Saskatoon district.

Customs excise-revenue was almost as inexpensive as income tax revenue to collect, the figure in 1938 being $2.48 per one hundred dollars of federal income. This figure, incidentally, represents the lowest collection cost in Canadian history. Customs revenue shows comparatively high collection costs in Canada, due to the great length of our borders in proportion to our population. The existence of many customs ports cannot possibly be justified on a revenue basis, but only on an anti-smuggling basis. However, the cost of this preventive service inevitably enters into the collection costs of the customs revenue.

Let us now turn to an examination of the component parts of the national revenue. The net customs duty collected was ninety-three and one-half million dollars. This amount was 18 per cent of the total revenue, and was collected on total imports, free and dutiable, to the value of $799,000,000. To correct an impression, erroneous but perhaps widely held, that Canada's tariff varies with changes in government between about 25 and about 33 per cent, it should be noted that the official report of the Department of National Revenue shows that the percentage of duty on the total value of goods entered for home consumption, dutiable and free, is 12.98 for the current year. This is the lowest

ORDINARY REVENUE	Total April 1, 1936 to March 31, 1937	Total April 1, 1937 to March 31, 1938
Taxation Revenue—		
Customs Duty	$ 83,771,090.52	$ 93,455,750.12
Excise Duty	45,956,857.39	52,037,332.55
War Tax Revenue—		
Excise Taxes (sales, stamps &c.)	152,473,422.30	180,818,767.47
Income Tax	102,365,241.75	120,365,531.48
Miscellaneous Taxes	1,984,257.46	1,973,679.18
Total Taxation Revenue	386,550,869.42	448,651,060.80
Interest on Investments	11,231,034.85	13,120,522.93
Post Office	34,274,552.00	35,546,161.25
Canada Grain Act	1,192,099.40	679,926.94
Miscellaneous	11,780,399.38	12,299,909.52
Total Ordinary Revenue	445,028,955.05	510,297,581.44
Special Receipts (including Miscellaneous Receipts and Credits to Consolidated Fund)	8,463,997.61	3,009,879.32
Capital Accounts (Credits and Refunds)	616,069.00	1,543,135.23
Other Credits—Non-active Assets (write-down to Consolidated Fund, etc.)	44,725.73	*1,842,153.47
TOTAL	$454,153,747.39	$516,692,749.46

*NOTE.—Includes net credit of $1,023,058.94 resulting from various adjustments in Railway accounts authorized by Canadian National Railway Capital Revision Act, 1937.

percentage rate of duty for any year since 1876. Even the highest rate in Canadian history, that for 1889 (21.65 per cent) is well below the 25 per cent figure, and only once since 1891 has the figure exceeded 20 per cent. That was in the war year of 1916.

Canada's customs tariff may be described as a "three-decker" tariff. For each of the eight-hundred-odd items one of three rates must apply. These rates are known as "British preferential", the lowest, "intermediate", and "general". There is no constant ratio between these three, for every individual tariff item is the result of a complex of historical and economic forces which has worked itself out through a series of trade agreements and budgetary changes. For example, one item will be free under all three tariffs, while another may read, free, 15 per cent, 25 per cent, and still another, say, 30 per cent in all three. This general outline in some cases is still further complicated by special trade agreements with particular countries. Obviously, then, it is not possible further to describe customs revenue without going into an almost inexhaustible mass of detailed statistical data. Canada's customs tariff is in some cases a protective tariff, in other cases a purely revenue tariff, and in many cases a mixture of the two. It may be noted that in so far as a protective tariff succeeds in its avowed purpose of "protecting", it loses its usefulness as a producer of national revenue—at least directly.

Excise duties provided just over 10 per cent of the national revenue in 1937-38, and excise taxes, the largest single item, 35 per cent. The dictionary distinction between a duty and a tax is very finely drawn, but in the Revenue Department the practical difference is clear-cut enough. Duties are collected on goods, such as tobacco and alcoholic liquors, manufactured under government supervision, and the duty must be paid before the goods are released for sale. But for excise taxes, levied on a large number of miscellaneous goods, the government can have no security beforehand that the tax will be paid. Let us consider excise duty revenue first. By far the largest part of this revenue is derived from duties on tobacco (including cigarettes) and cigars. The government receives in duties and taxes from thirty-nine to fifty-five cents on every dollar's worth of cigarettes, depending on the brand. The rest of the excise duty is made up principally of levies on spirits and the malt used in the manufacture of beer. The purchaser of a standard brand of spirits pays about 28 cents of his dollar to the government, and the beer drinker roughly 15 cents. It should be noted that these figures include sales tax as well as excise duty. Excise duties, then, in Canada are taxes on luxury consumption. The various provincial governments also levy their toll on spirits and malt liquors through their profits on government sale.

Excise taxes, as may be seen in the accompanying table, provided the government with $180,000,000. Of this amount the sales tax accounted for $140,000,000. The sales tax is a flat rate tax of eight per cent, levied on the manufacturer's sale price of, with certain exceptions, all commodities. The principal articles exempt from sales tax are foodstuffs and the primary products of farm and forest, mine and quarry, as well as certain commodities designated for use in religious, charitable, health and educational institutions. Fisherman's boats and supplies are exempt, as are also, under recent legislation, building materials. These exemptions are an example of the way in which a tax system may be used to encourage especially deserving causes or to promote particular industries. The sales tax is admittedly heavy, and regressive in its effect, in the sense that it bears more heavily on the poor than on the rich. The present Minister of National Revenue has publicly declared that it will be a happy day for himself and his colleagues when it is possible to reduce the sales tax below its present high level.

Other excise taxes of importance are the three per cent special excise tax on importations, which brought $18,000,000 to the national treasury in the year just past. The excise tax of one cent per pound on sugar was worth 10 million dollars, and the sale of excise stamps netted nearly five millions. Other excise taxes which went over the million dollar mark were those on matches, on cigarette papers and tubes, and on toilet preparations. Excise taxes providing between a half-million and a million dollars were those levied on telephone calls, on automobiles and on rubber tires.

The final main division of the national revenue to be considered is the income tax. This tax, collected from individuals and corporations, brought to the federal coffers $120,000,000 in the year 1937-38. Of this sum, 40 million dollars was collected from individuals, 70 million dollars from corporations and 10 million dollars by the special five per cent income tax. The special tax of five per cent is levied on the income of non-residents of Canada when the income is derived from Canadian sources.

The individual income tax varies from three per cent on the lowest income to 56 per cent on the highest, after very liberal tax exemptions have been provided for the lower income group. Less than one-eighth of the individual income tax payers pay more than 85 per cent of the income tax. The corporation income tax is not graduated as it is in the United States, but is a flat rate of 15 per cent. Because of the fact that income tax collections begin on April 1 on incomes earned in the previous fiscal year, peak income tax revenues lag behind by one year peak revenues from customs and excise duties and taxes. This has a certain stabilizing effect on year-to-year total collections, which is undoubtedly desirable from the government's point of view.

Such, then, is the structure of Canada's national revenue in the year 1937-38. It is not to be thought that there is anything long-enduring in the statistical picture here presented. Not only does the tax structure itself vary from year to year, and, more markedly, from government to government, but changes in the economic condition of the country will induce changes in revenue, the tax system remaining the same. In other words, some taxes are more "elastic" as revenue producers than are others. It must be the continuing duty of every government to provide such services as the people demand, with an optimum distribution of the individual burden of taxation and a minimum dislocation of the economic life of the country. It is no simple matter.

Prince Edward Island's Case Before the Rowell Commission

By ANTHONY TRABOULSEE

PRINCE EDWARD ISLAND'S submission to the Rowell Commission opens with a brief foreword. The foreword complains that Prince Edward Island is not receiving an adequate share of federal assistance, it alleges that the "national tariff policy" is working to the detriment of the Maritime Provinces, and that the Island Province, despite the utmost fiscal frugality, is denying its citizens certain public services enjoyed by citizens of the other provinces, and stresses the necessity for some measure of readjustment of the financial relations and constitutional positions of the Dominion and provinces.

The first proposal is to capitalize the

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Mr. Traboulsee's contribution concludes the series of articles dealing with the Briefs of the Maritime Provinces submitted to the Rowell Commission. The Nova Scotian Brief was discussed by Professor G. E. Curtis in Vol. I, No. 3, p. 114; the New Brunswick Brief by F. X. Jennings, Vol. II, No. 1, p. 3.