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Tax-Exempt  
Business**

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# **INCOME TAX PAYERS' ASSOCIATION**

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# Tax Exemption In Canada

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**An address delivered by Mr. G. S. Thorvaldson, K.C., President of the Income Tax Payers Association, before the Toronto Board of Trade Club, the Insurance Institute of Montreal, and a joint meeting of the Ottawa and Hull Boards of Trade.**

In wartime, when the stakes are as high as they are today, payment of taxes to the state, no matter how high or onerous, is a patriotic duty. In peacetime taxation becomes again an economic and social problem. Then the problems of employment, social security and human welfare, as well as indeed our whole national progress and development, will be governed by the wisdom or folly of taxation policies.

This statement may at first seem extravagant. It is well to recall however, that while the cost of the Federal Government in Canada before the war was less than 8 per cent of the national income of that day, the cost of the same government in the postwar years may well be in the neighborhood of 25 per cent of future national income; perhaps more. In any event, the weight of the prewar tax burden will be multiplied many times.

And in respect of income tax, while the revenue from Canada's income tax in 1939 (i.e., year ending March 31st, 1940) was \$134,449,000, in 1943 (i.e., year ending March 31st, 1944) the revenue from this tax amounted to \$1,620,475,000. This tax has multiplied twelve times. In terms of national income, the burden of it is more than six times greater than in the last prewar year.

I merely allude to these figures and make these comparisons to indicate the magnitude of the present and future income tax problem.

During the period of the war, few seriously contend that it is either possible or wise to reduce taxation in Canada. Until our national safety is assured, payment of heavy and onerous taxes by business and individuals is a patriotic duty as



well as an economic necessity. But in what I have to say as to future income tax policy, I will refer to it as the economic and social problem which it will in due course again become.

*There are two ways of transforming a free enterprise economy into a state-owned, monopolist or socialistic economy. One is the method advocated by a comparatively powerful political force in this country; namely the assumption by the state, by legislative action and perhaps with compensation, of the ownership and control of the economic resources of the country. So far this result has been completely achieved in only one country of the world. As the standard of living in that country is not comparable with our own, comparison has little or no value.*

*There is another way, however, in which identically the same result can be achieved, and that is by taxation. There are two branches of this method, either one or both of which can be used effectively to achieve the desired end. One is such excessive taxation as to destroy, either in an individual or group, any incentive to individual economic progress. This has largely been done now, and would already have had devastating results to our economy were it not for the democratic and patriotic urge in all of us to achieve victory against our enemies no matter what the cost as the price of our survival as a free people.*

*The other is such discrimination in taxation either as between individuals, groups or combinations of capital as will in due time direct or channel or force all business and industry either into the arms of the state as represented by the three forms of government in this country, or into other of the well known tax exempt forms of carrying on business in Canada.*

There is the accompanying fact, too, in the case of tax exempt forms of doing business, that these businesses—and there are many of them in Canada, and their annual earnings run into tens of millions of dollars—are not bearing their fair share of Canada's war burden. And if it is true that payment of high taxes in a time of crisis such as the present is a form of patriotic duty, there are hundreds of business enterprises in Canada, paying no income taxes on their earnings, and therefore bearing none of the financial burdens of the war. Furthermore, some of these businesses will emerge after the war

with huge surpluses, built up out of tax free earnings, at a time when their competitors were taxed to the hilt. And these surpluses as well as their tax privileges will enable them to retain enormous advantage over their tax paying competitors in the competitive world of the future.

Some may say, "What nonsense!" But let me give you a couple of actual examples from the business life of this country.

This is the way that the earnings of a well known Canadian co-operative concern—one of the Wheat Pool elevator systems—are shown (for year ending July 31st, 1943):

Earnings for One Year.....\$4,268,717.14

Dominion Income and Excess  
Profits Tax..... None

Net Earnings for Dividends,  
Expansion, Reserves, etc.....\$4,268,717.14

And this is the way in which a private business in the same industry and making the same profits would have to show its earnings:

Earnings for One Year.....\$4,268,717.14

Dominion Income  
Taxes.....\$ 768,369.00

Excess Profits Taxes.. 2,752,263.00

Total Income and Excess  
Profits Taxes..... 3,520,632.00

Net Earnings for Dividends,  
Expansion, etc.....\$ 748,085.14

This is neither theory nor fancy; it is fact. It is an actual example from the real business life of this country. Is it conceivable that ordinary individually owned or partnership or corporate business can thrive and continue to compete with competitors who are income-tax exempt; with competitors who get a tax-free ride in our economy?

How long will it be until these tax exempt concerns which because of tax exemption are enabled to build up huge surpluses and reserves will be in a position to buy up the undertakings



of their highly taxed competitors whose income, often up to 80 per cent is paid to the state in taxes?

Let me give you another example of a tax exempt enterprise in this country. What follows is taken from the report of the superintendent of insurance for the Dominion of Canada, for the year ending December 31st, 1940 (Blue Book).

Joint Stock Fire and Casualty Insurance Companies . . . . .	Underwriting Profit \$5,422,400.00	Income and Excess Profits Taxes \$2,272,168.00
Mutual Fire and Casualty Insurance Companies . . . . .	1,250,008.00	Nil

Here is a case where one form of business enterprise—namely an enterprise which is organized in a certain way—pays 40 per cent of its net profit in income taxes, whereas its competitors, doing exactly the same type of business in exactly the same way, pay no income taxes whatsoever. In other words this is clearly a case where one type of business enterprise is now being subsidized by the Dominion government to the extent of 40 per cent to 80 per cent of its earnings.

One is tempted to ask whether the benefits of victory in this war are expected to accrue only to ordinary corporate and individual enterprise and not to co-operatives and mutuals as well.

There is yet another form of business that is frequently in direct competition with privately owned enterprise; that is government in business. Everyone knows that the three forms of government in Canada, federal, provincial and municipal, both directly and through government owned corporations operate businesses of various kinds—great hydro electric plants, distribution systems, electric appliance sales; they operate railroads, run banks, real estate loaning agencies, construction companies and dozens of other enterprises, all in direct competition with highly taxed private enterprise. And, in fact, most of these businesses call themselves yardsticks for competitive rates and competitive prices, while paying nothing in income and excess profits taxes though their competitors have to pay amounts ranging from 40 to 80 per cent of their net earnings in income taxes to the state.

I have now referred briefly to three types of business, namely co-operatives, mutuals and state

owned enterprise, which are all income tax exempt. They are all privileged businesses. They enjoy all the protection and services provided by the state for all enterprise but they pay none of the income taxes required to operate the state. They keep all their earnings while other enterprise pays all the tax bill, both in war and in peace.

Every schoolboy learns early the first rule of taxation; namely taxes must be equitable; taxes must be applied equitably; special privilege should be granted to none. Was there ever a clearer example of special privilege?

But perhaps tax exemption in Canada is of limited extent. If so, it would matter little either to this country's war effort or its peacetime economy. But what do we find?

First take a look at co-operatives in Canada. Co-operative marketing organizations now handle approximately one-third of the commercial production of Canadian farms. Consumer co-operatives have grown to the point where they are almost the sole retail outlets in some areas of Canada. Wholesale co-operatives are growing at a rapid pace. Co-operative organizations in the fishing industry are extensive and are spreading into the processing and canning fields. In some areas credit unions are developing into co-operative banks. Consumer co-operatives refine gasoline, own and operate oil wells, coal and wood yards, implement agencies, general wholesale establishments and retail stores. A few days ago a giant farm implement co-operative sought and obtained from the three prairie governments the promise of a loan of three-quarters of a million dollars for the purpose of carrying on business in farm implements.

Between 1938 and 1942 the number of farmers' co-operative organizations grew from 1,217 (in 1938) to 1,722 (in 1942); shareholders from 435,529 to 566,314; patrons from 462,937 to 620,034, assets from \$83,140,697 to \$128,004,893; and volume of business from \$155,080,435 to \$257,090,427. Throughout these war years when the hand of the tax collector has reached into every pocket in the land, it has yet failed to exact a penny in tax on the profits of more than a quarter of a billion dollars worth of annual business carried on in Canada by co-operative organizations alone. Furthermore, all this business was conducted in direct competition with other forms of business whose net profits were



In December, 1942, Mr. J. H. Wesson, President of the Saskatchewan Wheat Pool was reported (*Western Producer*) as follows: "... the Wheat Pool objected to paying an income tax and if it were forced to do so, it would pay the tax only once. Next year, he asserted, it would inventory its business, estimate the crop and the costs of carrying on business and reduce its charges so there would be no surplus.

"If the Wheat Pool were forced to do this," said Mr. Wesson, "the line elevators would be obliged to follow suit. It would mean that 75 per cent of the grain trade would be bankrupt within three years under normal conditions."

This threat has been repeated on numerous occasions since December, 1942. About three weeks ago (on September 30th) the pools proceeded to make it good by slashing grain handling rates in Western Canada by 66 per cent to 86 per cent of former rates. The cost of the services rendered are far in excess of the reduced rates.

In the first place this is a clear attempt on the part of the pools of gaining monopoly control of all grain handling in Western Canada. In the second place it is an effort to make more certain the complete tax evasion of the pools. And further, its effect will be to remove from the income-tax paying field the whole of the grain-handling business of Western Canada.

I might add that in my view the farmers of Western Canada desire a pool monopoly of grain handling no more than they want any other type of monopoly control of this or any other business.

May I repeat that I cite this as a vicious example of where tax exemption does lead. It leads, as does any other special privilege, directly to monopoly control of the business or industry in which it prevails.

Many years ago, Chief Justice Marshall, one of the great Chief Justices of the U.S. Supreme Court, wisely said that "the power to tax is the power to destroy." That statement is as true now as when it was made. And the tax power to destroy grows with the measure of tax inequality.

You may well ask, how did inequalities develop in our tax system? Tax exemption began at an early date. First to be freed from all tax burdens was of course the property of churches and

schools. These exemptions were broadened throughout the years until today all state property or enterprise is exempt from any requirement to pay taxes. In the case of co-operatives these were commenced originally to "help the farmer" by enabling him to sell his products with other farmers in his community and to buy needed supplies at wholesale cost. To that true type of co-operative there was no objection on the part of private business. Also at a time when income taxes were relatively unimportant, little attention was given to the advantages enjoyed by co-operatives and mutuals by virtue of their tax exemption.

But now, many of these co-operatives have grown to great size in fields far removed from the original concept of true co-operatives. They are now manufacturers, millers, grain elevator operators, oil drillers and refiners, printers, wholesalers, operators of food and general stores, coal yards, lumber mills, canning factories, and packing houses, and they boldly predict that they will soon enter every sort of business, and that "when the people deal only with themselves" they will wipe out salesmen, advertising and all middlemen.

This is part of the story of tax exemption in Canada. In Great Britain co-operatives bear a similar share of the tax burden as other forms of business. That has not always been so. But few people in the world have a finer perception of social justice than the British; and no people have a clearer conception of fair play and equity than they. And so with the development of co-operatives there from truly mutual traders to huge commercial concerns, the tax laws of that country were amended to wipe out the former inequity. In most European countries co-operatives pay the same share of operating the state as any other business.

In the United States the same situation prevails as in Canada. There also, co-operatives and mutuals fight with all their power to retain their special privileges. But these tax exemptions in that country are a matter of real concern. In his message to Congress on January 7th, 1942, President Roosevelt said, "... The privileged treatment given certain types of business in corporate income taxation should be re-examined. ... Our tax laws contain various technical inequalities and discriminations. With taxes at



wartime levels, it is more urgent than ever to eliminate these defects in our tax system."

Is there any reason, therefore why these defects—these tax privileges—tax exemptions—should not be examined by the Canadian people? And is there any reason why some people in this country should not boldly bring this matter out into the open?

*The fact is that federal tax exemption of co-operatives, mutuals and government business enterprises is depleting the national revenue by well over one hundred million dollars a year. Can the Dominion afford such a loss of revenue and yet finance the war and all its postwar schemes including additional social services, assistance to agriculture in the way of floor prices and subsidies as well as the major task of providing adequate pensions and rehabilitating our soldiers as they return from overseas?*

This story must be told to all Canadians. It hasn't been told to them in the past, and until it is told they cannot come to an intelligent decision on the facts. This is a matter of high government policy. And it is well known that governments do not act except with the force of public opinion.

So you may ask, what should be done, what can be done? The first thing to do is to assemble the facts and then expose all special tax privilege to public scrutiny. If thereafter the people of Canada determine to allow these tax inequities to remain the law of this land, then indeed we shall be on the highroad towards a so-called Co-operative Commonwealth; or should one rather say a co-operative, mutual, state monopoly.

If on the other hand Canadians have the abiding confidence, which I think they have, in the free enterprise of a free people; if they have faith in a vigorous and expanding economy; if they believe in the possibility of ample employment and investment opportunity in the years to come, there is not much doubt that a voice will be raised demanding the end of special privilege and that equal obligations should go hand in hand with the equal freedoms and opportunities in our land.

## To All Income Tax Payers . . .

The Income Tax Payers Association has been formed with the main object of securing a more equitable distribution of the income tax burden. Some of the other objects of the association are:

- (1) To investigate and study the incidence of Income Tax, both generally and as it may affect any particular trade, industry, business or class of individuals;
- (2) To seek and obtain the simplification of Income Tax laws;
- (3) To inform members of the association from time to time of the provisions of any income tax legislation and of any new developments in Income Tax law;
- (4) To afford Income Tax payers an opportunity of acting unitedly in making representations to the proper authorities to secure relief from inequalities in Income Tax law or administration; and to give publicity to such inequalities with a view to obtaining the redress thereof.

The exemption from income tax of co-operatives, of mutual insurance companies and other mutual corporations, and of municipal and government owned business undertakings are examples of injustices in the existing income tax law, the redress of which would relieve all taxpayers, both individual and corporate of unfair burdens and unfair competition. But affecting the individual of moderate means more directly is the taxation of annuities as income, and of annual payments received under a Will or trust, although consisting in whole or in part of capital funds.

High rates of taxation must be accepted in wartime, but if private enterprise is to survive, such taxation must be applied equitably and in accordance with democratic principles.

A united voice and mass action is required to bring about results and all income tax payers (with the exception of those employed by commercial enterprises enjoying special exemption from income tax) are eligible for membership in the association.

The Income Tax Payers Association is organized on a Dominion-wide scale. Our association is not opposed to co-operatives or mutual companies, or government ownership as such; it believes every citizen should enjoy the right to organize and do business as he desires. We merely seek equitable taxation of all forms of business enterprise, and we oppose any grant of tax privileges by any government.

If you wish to become a member, please complete and mail the application on the back of this folder to the association's office at either Winnipeg or Toronto. The membership fee for individual members is \$1.00.

Yours truly,

INCOME TAX PAYERS ASSOCIATION,

HERBERT ADAMSON,  
Secretary.



# You are invited to join the Income Tax Payers' Association

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INCOME TAX PAYERS ASSOCIATION,  
300 Lombard Building, Winnipeg, Manitoba.

I hereby apply for membership in this association and forward membership fee of \$1.00.

Name.....Employer.....

Office Address.....Position or Office.....

City.....

.....  
(Signature)