Canada’s Excise Tax on Advances of Money, 1920-1927

by Christopher D. Ryan

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In May of 1920, the federal budget speech announced the government’s intention to increase excise tax on all promissory notes and bills of exchange (drafts) from a flat 2 cents to 2 cents per $100 of the amount of the document. Before the July 1st introduction of the new rate, anticipated difficulties in its application resulted in it being limited to time-drafts and time-notes (drafts and promissory notes payable at a specified time greater than three days) and in the introduction of a tax on the advances of money given by banks. [1]

The anticipated difficulties took two forms, excessive taxation in some cases and evasion of the tax in others. Excessive taxation would have occurred in situations where a demand-note (a promissory note payable on demand) was renewed on a daily basis for a variable amount as determined by transactions in a commodity. The net effect would have been a multiplication of the tax on what was in effect a single, ongoing credit. Demand-notes could also have been used to evade the tax by acting as a substitute for the standard commercial practice of renewing a time-note each month. In this case, a single demand-note would be given to the bank against which periodic payments would be made over a long period of time. Another means of evading the proposed increased in the tax rate would have been the excessive use of overdrafts of bank accounts. [1]

To counter these potential difficulties, the government continued to tax demand-notes and drafts (other than time-drafts) at the old rate of 2 cents per document. However, the advances of money given by banks against demand-notes or by way of overdrafts were made taxable at 2 cents per $100 or fraction thereof as of July 1st, 1920. This rate was increased to 2 cents per $50 as of August 1st, 1922. [1, 2]

For consistency and equity, other forms of advances made against agreements to pay and/or pledges of security were also made taxable. This resulted in the taxation of three basic forms of advances:

- Overdrafts of bank accounts,
- Demand-loans (i.e. advances made against demand-notes), and
- Call-loans (i.e. advances made without demand-notes, but against agreements to pay and/or pledges of security).

All of these advances were now taxed on par with credits or advances granted by the use of time-notes and time-drafts. The tax on overdrafts, demand-loans and call-loans was to be paid by the bank affixing stamps to a statement of advances and charging the amount to the respective customer. Either excise tax or postage stamps were permitted through September 30th, 1923. [1, 2] As of October 1st, 1923, only excise tax stamps could be used. [3] (Note: ‘War tax’ was the pre-1920 designation for Canada’s excise tax stamps.)

In December of 1920, the Revenue Department ruled that advances made prior to July 1st, 1920, and still outstanding on or after that date were not subject to the new tax regime. When forwarding details of the ruling, at least one bank instructed its employees not to refund any such tax that had already been paid. [4] As will be discussed later in this work, it appears that a similar ruling was made concerning the August 1st, 1922, introduction of the 2 cents per $50 rate.

As of July 1st, 1925, the tax was extended to advances made by any financial institution against a loan agreement and/or pledge of securities. It was revoked as part of the July 1st, 1927, return to a flat 2-cent tax for the month of July 1922 at the 2 cents per $100 rate. Figure 2 illustrates the 2 cents per $50 rate where the overdrawn account was closed or called in during the month of September 1925. This required the payment of the tax prior to the end of the month.

The tax on call-loans was to be paid quarterly at the end of March, June, September, and December, respectively. If a call-loan were paid off, or called in, during a quarter, payment of the tax was to be made immediately. [1, 2]

Figures 3 and 4 respectively illustrate the first and last quarterly payments of the tax on call-loans. Both of the illustrated statements were issued by the Canadian Bank of Commerce in Montreal, Quebec at the respective rates of 2 cents per $100 and 2 cents per $50.

In the case of the quarterly tax on demand-loans, the 1920 Statute specified that whenever “a promissory note, payable on demand” was given to a bank against an advance of money that bank was to prepare “a statement showing the maximum amount of advances” made against such “notes” and to affix stamps equal to the value of “two cents for every one hundred dollars or fraction thereof by which the maximum amount of the advances as aforesaid exceeds one hundred dollars.” This phrasing was repeated in the 1922 Act at the new 2 cents per $50 rate. As was the case with call-loans, the tax on demand-loans was immediately due if the loan was paid off or called in during a quarter. The Statutes also stated that the demand-notes received by the bank required only a two-cent stamp regardless of the amount of the note. [1, 2]

A strict reading of the statutory provisions would indicate that credit was to be given in the quarterly tax-payments for only one demand-note regardless of how many were actually issued. However, applicable tax-statements seen by this writer represent two other scenarios, credit given for multiple demand-notes and no credit given for any demand-notes. These applications of the tax may have been made by a Revenue Department ruling that has not yet been found. Such a ruling would have put the various types of demand-loans on an equal footing with respect to the total amount of excise tax paid.

An example of a stamped demand-loan statement in which multiple credits were apparently allowed is illustrated in Figure 5. This statement is for the quarter ending March 31st, 1922. It quotes a maximum advance of $10,000, taxed at 2 cents per $100, with an apparent credit of four cents presumably representing two demand-notes for a total tax paid of $1.96.

Quarterly demand-loan statements that include no apparent credit, such as the one illustrated in Figure 6, may have been, given an undiscovered Revenue Department ruling suggested previously, the product of one of several situations as follows: First, the applicable demand-notes were issued in a previous quarter and therefore no credit was given in the current quarter. Second, the bank ignored the credit for the demand-notes and charged the tax on the whole amount of advances, which would have probably upset an attentive customer. Third, the portion of the advances represented by the credit was deducted from the quoted total amount of advances, which seems unlikely as it would have produced an inaccurate statement. Fourth, the bank had not affixed a single two-cent stamp to each demand-note as was required by the Statute.

Evidence for the fourth of the above situations is provided by the documents in Figures 7 and 8. The first item (Figure 7) is a stamped statement for an advance against what is specifically described in the document as a $5000 demand-note given by the Rural Municipality of
Lipton, Saskatchewan to the Royal Bank of Canada. The twenty blue 10-cent Admiral postage stamps affixed to the back of the statement paid a tax of $2 at the 2-cents per $50 rate in place of the $1.98 required by the Statute. As required by law, the statement was issued on December 18th, 1922, when the note was paid by the Municipality. Shortly thereafter, on December 21st, 1922, the Municipality gave the bank a second demand-note (Figure 8) for $5000 that was likewise paid on December 30th, 1922. However, a stamped statement was not issued for this second note. In the place of the statement, the requisite stamps, ten 20-cent Admiral postage stamps, were affixed and cancelled on the back of the note. According to the Statute, this demand-note should have been stamped on December 18th with a single two-cent stamp. The remaining $1.98 in stamps should have been affixed on December 30th to a separate statement.

These documents suggest that the Royal Bank branch in Lipton (and, by extension, other branches and banks) had adopted the practice of stamping only the periodic statements of advances and not the individual demand-notes represented by the statement. Given the credit of two cents per note presumed earlier in this article, the practice suggested here would have simplified the application of the tax and yielded the same revenue for the government. One suspects that the consent of the Revenue Department would have been required, but this writer has not found an applicable ruling to confirm this.

(Text continues on page 6.)

Figure 1: Debit-slip of August 3rd, 1922, from the Union Bank of Canada at Blairmore, Alberta regarding the monthly excise tax on an advance by way of an overdraft of a bank account. A tax of $17.90 for the month of July 1922 at the 1920-1922 rate of 2 cents per $100 is paid by three $5, two $1 and three 20-cent George V excise tax stamps.

Figure 2: Statement of September 18th, 1925, from the Standard Bank of Canada at Picton, Ontario regarding the monthly excise tax on an advance by way of an overdraft of a bank account. A tax of four cents is paid by a 4-cent Two Leaf excise tax stamp. The account was evidently closed or called in on September 15th, requiring payment of the tax prior to the end of the month.
Figure 3: Bank statement of October 5th, 1920, regarding the excise tax for the quarter ending September 30th on a call-loan of $57,500. The $11.50 in tax at the 1920-1922 rate of 2 cents per $100 was paid by one $10 George V excise tax stamp and three 50¢ George V war tax stamps. This document represents a first payment of the tax, which took effect July 1st, 1920.

Figure 4: Bank statement of June 30th, 1927, regarding the excise tax for the quarter ending June 30th on a call-loan of $51,000. The $20.40 in tax at the 1922-1927 rate of 2 cents per $50 was paid by two $10 George V and two 20¢ Two Leaf excise tax stamps. This document represents a final payment of the tax, which was revoked as of July 1st.

Figure 5: Statement of April 7th, 1922, from the Royal Bank of Canada at Toronto, Ontario regarding the excise tax for the quarter ending March 31st on demand-loans totalling $10,000. The $1.96 in tax at the 1920-1922 rate of 2 cents per $100 suggests that a credit was given for two demand-notes. See text for details.

Figure 6: Statement of June 30th, 1921, from the Royal Bank of Canada at Mount Forest, Ontario regarding the excise tax for the quarter ending June 30th on demand-loans totalling $10,375. The $2.08 in tax at the 1920-1922 rate of 2 cents per $100 suggests that no credit was given for any stamps affixed to demand-notes. See text for details.
Figure 7: Statement of December 18th, 1922, for an advance of money against what is specifically described in the document as a $5000 demand-note given by the Rural Municipality of Lipton, Saskatchewan to the Royal Bank of Canada. As required by law, the statement was issued when the note was paid by the Municipality, rather than at the end of the quarter.

The twenty blue 10-cent Admiral postage stamps affixed to the back of the statement paid a tax of $2 at the 2 cents per $50 rate in place of the $1.98 required by the Statute. The difference of $0.02 to make a total of $2 tax should have been affixed to the demand-note.

Figure 8: $5000 demand-note of December 21st, 1922, given by the Rural Municipality of Lipton, Saskatchewan to the Royal Bank of Canada. The note was paid on December 30th, 1922, making the advance that it represented taxable as of that date.

The $2 in tax at the 1920-1922 rate of 2 cents per $50 was paid by ten green 20-cent Admiral postage stamps affixed to the back of the note. This was an improper procedure. Only a 2-cent stamp was to be affixed to the note on December 21st with the remaining $1.98 in tax being paid by stamps affixed to a separate statement (such as the one in Figure 7) on December 30th.
An interesting example of the tax on advances is illustrated in Figure 9 opposite. This statement of April 6th, 1923, for the quarter ending March 31st, 1923, represents a total advance of $193 000 against demand-notes with $64.70 paid by a large number of $1 and $2 George V excise tax stamps. A notation present at the left side of the document, just above the stamps, reads as follows:

<table>
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<tr>
<th>Advance Rate</th>
<th>Total Advance</th>
<th>Tax Paid</th>
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</thead>
<tbody>
<tr>
<td>62 500 @ 2¢ per $100</td>
<td>12.50</td>
<td></td>
</tr>
<tr>
<td>130 500 @ 4¢ per $100</td>
<td>52.20</td>
<td>64.70</td>
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This tax assessment can be explained by a scenario in which the Revenue Department had ruled that advances accumulated before the mid-quarter increase on August 1st, 1922, to 2 cents per $50 remained subject to the old rate of 2 cents per $100. Such a ruling would be in keeping with the precedence set in 1920 when the Department ruled that pre-July 1920 advances were not subject to the new tax. In addition, the proposed 1922 ruling would have put the tax on advances on the same footing as that on time-notes.

Given the above analysis, the advances represented by the document in Figure 9 were accumulated over a period of at least nine months. The accumulation of advances against numerous demand-notes over a long period of time is also illustrated by the documents in Figure 10. (See page 8.) The demand-note at the bottom of the figure was given to the bank on October 30th, 1931. Its excise stamp was cancelled on October 30th, 1931, with a simple straight-line date in green and again in July of 1934 with a boxed cancel in pink. The later cancel would appear to mark the time at which the note was paid. Accompanying the demand-note was a form, dated October 30th, 1931, in which sixty-two notes are listed with the dates of the notes ranging over a fourteen-month period of August 30th, 1930, through October 30th, 1931.

References
b- Canada, Statutes, 1923, 13-14 Geo. V, Chapter 70.
b- Canada, Bill No. 119 of May 18th, 1925, Customs and Excise Library, Connaught Building, Ottawa.
c- Canada, Debates of the House of Commons, 1925, pp. 3332-3333.

Excise Tax Meter Update (2) (continued from page 1.)

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<th>Meter</th>
<th>Type</th>
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<th>Values</th>
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<td>0.3</td>
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| 249065 | 7A | Blue | 0, 3 | Sample impression Pitney Bowes meter from 1951 on Sample impression Pitney Bowes meter from 1951 on Canadian Bank of Commerce cheque paper (See Figure 2 below.)

Figure 1: Ryan Type 7A. (Courtesy of C.D. Ryan.)

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Figure 9: Statement of April 4th, 1923, from the Dominion Bank regarding the excise tax for the quarter ending March 31st, 1923, on demand-loans totalling $193,000. The tax of $64.70 was paid by a large number of $1 and $2 George V excise tax stamps. A notation present at the left side of the document, just above the stamps indicates that part of the loan was taxed at the 1920-1922 rate of 2 cents per $100, while the remainder was taxed at the 1922-1927 rate of 2 cents per $50.

This tax assessment can be explained by a scenario in which the Revenue Department had ruled that advances accumulated before the mid-quarter increase on August 1st, 1922, to 2 cents per $50 remained subject to the old rate of 2 cents per $100. Such a ruling would be in keeping with the precedence set in 1920 when the Department ruled that pre-July 1920 advances were not subject to the new tax. In addition, the proposed 1922 ruling would have put the tax on advances on the same footing as that on time-notes.
Figure 10: Demand-note for $500 issued October 30th, 1931, and paid July 1934, being one of a series of such notes, of various amounts, dating back to August 30th, 1930. The notes were given over time to the Bank of Montreal at Lindsay, Ontario for a cumulative demand-loan of $57,500 as of October 30th, 1931. The dates and amounts of the notes comprising the debt were itemized in papers attached to the illustrated note. These documents post-date the tax on advances but are presented here to show that demand-loans could remain outstanding for a significant amount of time.