

Canada's Excise Tax on Cheques and other Types of Commercial Paper, 1915-1953

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Corrigenda:

- Page 5, Figure 4: The '\$1.24' in the description should be '\$1.44'.
- Page 7, Figure 9: The 'paid' in the second sentence of the description should be 'overpaid'.

Canada's Excise Tax on Cheques and other Types of Commercial Paper: 1915-1953

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An earlier version of this work appeared in 1997 under a different title in *The Revenue Journal of Great Britain* (7: 77-80; 8: 5-9). This revised version has been expanded to include detailed descriptions of the documents that were taxed, to correct some omissions and to clarify some points regarding the application of the tax. The excise tax on advances, which formed part of the original work, will be revisited at a later date in a separate article.

The term 'commercial paper' refers to documents such as cheques that are used for the payment of a sum of money. Excluded from this classification are items such as bonds, interest coupons, and debentures. These are regarded as investment paper or securities.[1]

Commercial paper can be divided into two categories: Negotiable under Canadian statute law, and not negotiable in law but treated as such in everyday practice. Negotiable paper, if not payable to 'bearer', can be transferred to another party by the payee of the document by endorsement and delivery. For example, a cheque that is payable to the order of 'John Smith' can be endorsed by him to the order of 'Mary Mills' and thus becomes payable to 'Mary Mills.' A cheque payable to 'bearer' would not require an endorsement. Parties to a document that is negotiable in law are protected against forgeries and defects in the item and have legal recourse to compel acceptance or payment of a valid item. In legal terms, the holder of a valid document can formally 'protest' nonacceptance or nonpayment.[1]

During the period of 1915 through 1953 when an excise tax was imposed by Canada on commercial paper, the following items were negotiable under Canadian statute law: Promissory notes and bills of exchange. A *promissory note* is an unconditional promise to pay a specific sum of money to a specific person, bank or company. A *bill of exchange* (also known as a *draft*) is an unconditional order to pay a specific sum of money to a specific person, bank or company.[1]

Promissory notes exist in two basic types: Time and demand. *Time-notes* are payable at the time specified in the document plus the 'days

of grace.' During the period of 1915-1953, Canadian law required that three 'days of grace' be added to time-notes unless other provisions were specified in the document. *Demand-notes* are payable on presentation, with no 'days of grace.' [1]

The person or company promising to pay the money is the *maker* of the note. The person, bank or company to whom the money is to be paid is the *payee* of the note.[1]

Bills of exchange (drafts) are divided into three types: Time, sight and demand. *Time-drafts* are usually paid three days (the 'days of grace') after the time specified in the document. For example, a 60-day draft would be payable on day 63. *Sight-drafts* are inscribed on their face as payable 'at sight' and are usually paid three days after presentation for acceptance, but can also be paid on presentation. *Demand-drafts* are not allowed the days of grace and are thus payable on presentation.[1]

There are usually three parties to a draft as follows:

- The *drawer* who issues the document.
- The *drawee* who, if they accept the draft, becomes the *acceptor* and as such becomes liable for paying the amount specified in the document.
- The *payee* who receives the payment from the *acceptor*. [1]

Drawees are not required to accept a draft unless bound by contract to do so. Once a draft has been marked on its face by its drawee as 'accepted', that draft is often referred to as an 'acceptance'. The drawer of a draft can be the same person as the payee.[1]

Cheques are demand-drafts drawn on a bank against a sum of money held by the bank on behalf of the drawer. Cheques are not 'accepted' by banks in the same way as other types of drafts when presented to other drawees. Postdated cheques are payable on demand as of their inscribed dates.[1]

In Canadian commerce during the 1915-1953 period, most drafts served a purpose that was significantly different from that of cheques. Cheques were used in the customary manner to *pay* sums of money out

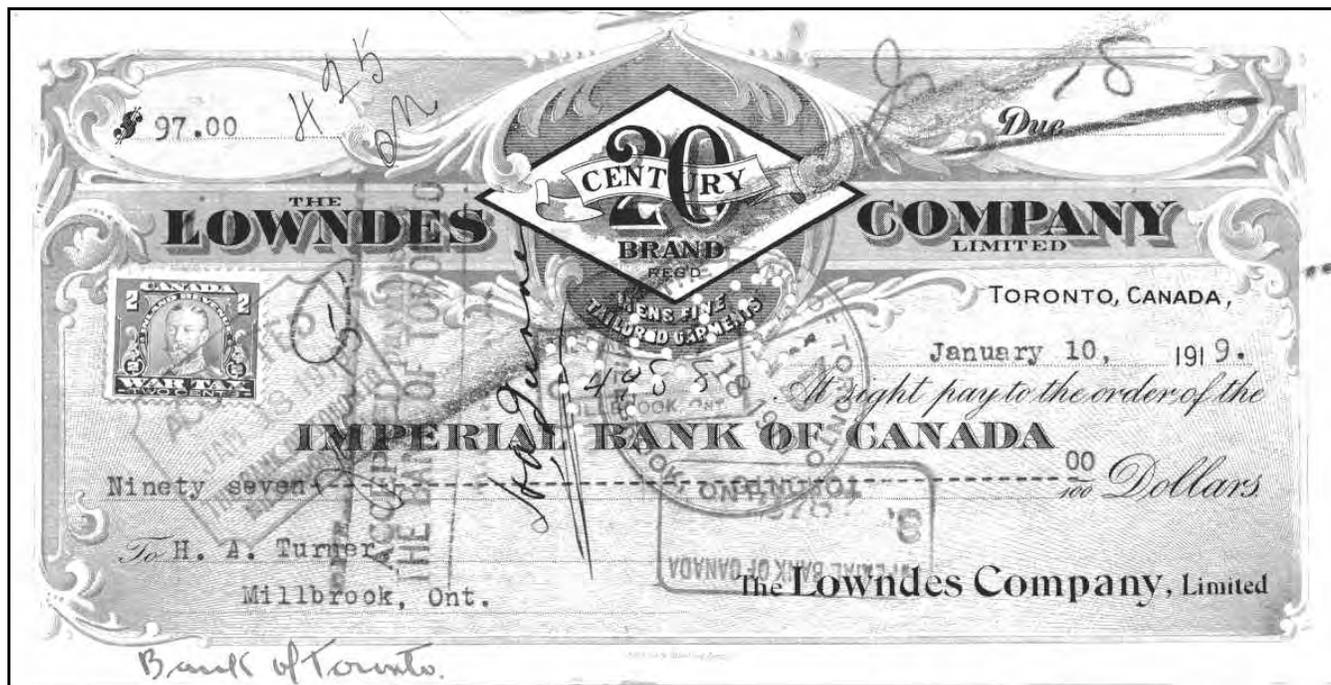


Figure 1: An example of a document that was negotiable under statute law: Sight-draft of January 10th, 1919, for \$97, drawn by The Lowndes Company on H.A. Turner of Millbrook, Ontario and payable to the Imperial Bank of Canada. Turner accepted the draft on January 15th and paid it three days later through the local branch of the Bank of Toronto. The 1915-1922 tax of 2 cents per document was paid by a 2-cent George V war tax stamp. (88%)

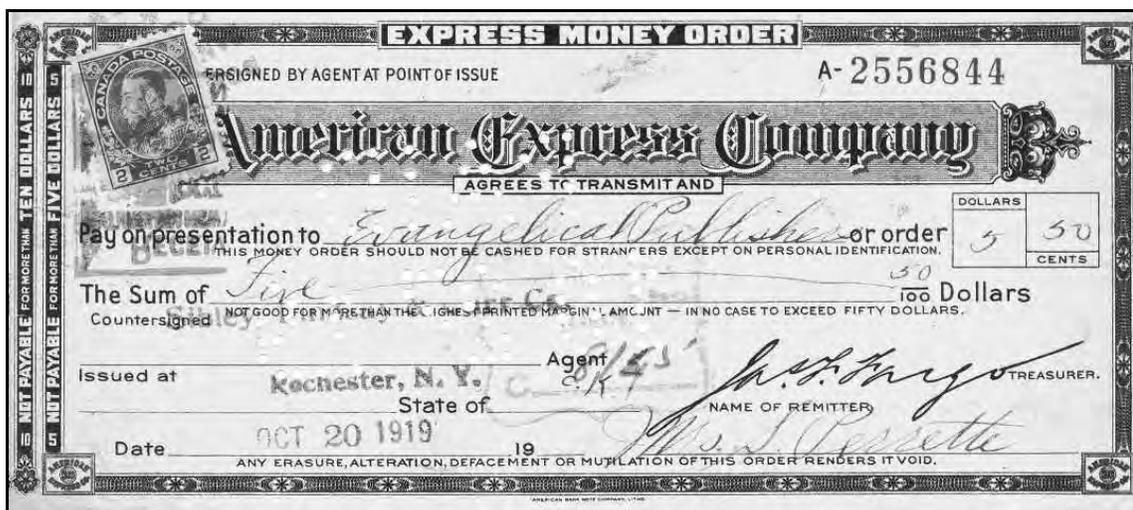


Figure 2: An example of a document that was not negotiable under statute law, but was treated as such in everyday practice: Express company money order of October 20th, 1919, for \$5.50, issued by the Rochester, New York agent of the American Express Company and payable to The Evangelical Publishers of Toronto, Ontario. This money order was negotiated through a Toronto branch of the Dominion Bank of Canada. The 1915-1922 tax of 2-cents per document was paid by a red 2-cent Admiral postage stamp. (83% of actual size.)

of the account of the drawer. Drafts were usually used by the drawer to collect sums of money for deposit into their account. The majority of payees for drafts were banks who collected the funds on behalf of their clients. An example of a sight-draft used for collection purposes is illustrated in Figure 1. Instances where drafts would have been used to pay a sum of money include the following:

- a bank issuing a draft on itself or on another bank (bank drafts),
- an agent or employee of a company issuing a draft on an office or officer of that same company.

Types of commercial paper that were not negotiable under statute law during 1915-1953, but were treated as such in everyday practice, included travellers' cheques, express company money orders and postal money orders. These documents were not negotiable in law due to defects in their wording and/or to having conditions prescribed for payment. Parties to such items did not have the same legal rights and protections available with bills of exchange (drafts) and promissory notes. In particular, this legal uncertainty caused banks to be very reluctant to cash express company money orders.[1] An example of an express company money order is illustrated in Figure 2 above.

Travellers' cheques of circa 1915-1953 were not negotiable in law because payment was conditional on the application of a second signature that was to match that of the purchaser of the document. Once countersigned by the purchaser, a travellers' cheque became, according to its wording, either an 'order' or a 'promise' to pay, but remained neither a draft nor a promissory note under statute law.[1]

Express company money orders of the 1915-1953 period were neither 'orders' nor 'promises' to pay a sum of money. They were contracts in which the company agreed to 'transmit and pay' a sum of money.

Postal money orders varied in their form and wording over the 1915-1953 period and thus the reason for their lack of negotiable status in law. For example, at the 1915 introduction of the excise tax, postal money orders were typographed forms that were not payable until a separate 'advice form' had been received at the paying office from the office that had issued the order. When the first design of lithographed forms was introduced over the 1923-1925 period, advices were discontinued except when required by a foreign postal authority. However, the text of the new forms had one postmaster promising that a second postmaster would pay the stated sum of money. This did not satisfy the statutory definition of a promissory note in which the maker of the note promises to pay the money.

The Excise Stamp Tax

Canada's excise stamp tax on commercial paper was part of a series of taxes imposed on April 15th, 1915, by the Special War Revenue Act, which was later known as the Excise Tax Act. In addition to commercial paper, bank account withdrawal receipts were also taxed to compliment the levy as it applied to cheques. Bank deposit receipts that also acknowledged a payment of money to the depositor were taxed as withdrawal receipts.[2]

With the exception of express company money orders and travellers' cheques and Canadian postal money orders, only documents issued or processed by Canadian banks, bankers, and others who provided similar services were subject to the tax.[2]

As of July 1st, 1920, previously exempt *lien notes* were taxable as promissory notes when made payable to, or collected by, a bank. A lien note is a form of conditional promissory note in which the seller of an item retains ownership of that item pending complete payment of the note by the purchaser.[8a] On August 1st, 1922, the tax was further extended to any other document processed by a bank that contained a promise to pay a sum of money but did not conform to the statutory definition of a promissory note.[3]

The Revenue Act of 1922 also expanded, for tax purposes only, the definition of 'cheque' to include "*any order, document or writing (except a bank note)*" drawn on or addressed to a bank or banker. Under this definition, bank drafts were now taxed as cheques and as such were granted the same exemptions.[3] (See '**Tax Rates**' below.)

On July 1st, 1925, a further extension of the tax was made to any document or writing, other than interest coupons and foreign postal money orders (see '**Special Exemptions**' below), not addressed to a bank for which a bank paid out a sum of money. For example, in place of a cheque, a grain company might issue a ticket to a farmer showing the amount of grain received from that farmer. The farmer would then present the ticket to a particular bank and receive the cash equivalent of the grain. These items were now taxed as cheques.[4]

Most taxable documents were to have been stamped at their time of issue by their issuer. Bank account withdrawal receipts differed in that they were to be stamped by the recipient of the money. Bills of exchange (drafts) not issued by a bank and promissory notes were subject to the tax only when delivered to a bank for collection purposes or when a bank was made the payee of the document. The latter often occurred at the time the document was issued. Both drafts and notes were to be stamped by the person making the delivery or transfer.

Banks were forbidden to accept taxable documents that had not been stamped. Exempted from this provision were documents issued outside of Canada. In such instances, banks were permitted to stamp the document and collect the tax from the person receiving the proceeds of the transaction.[2]

Adhesive or embossed revenue stamps were used throughout the lifetime of the tax: April 15th, 1915, through February 19th, 1953. The adhesive stamps were inscribed in chronological sequence ‘War Tax’ (1915), ‘Excise Tax’ (1920) or ‘Excise/Accise’ (1923). However, use of the revenue stamps was not allowed in the case of postal money orders. In the early years of the tax, only regular postage stamps or special postal war tax stamps were permitted in payment on these documents. These stamps were replaced over the 1923-1925 period by a printed tax-paid mark and the inclusion of the tax in the commission charged by the Post Office to the purchaser.[2, 5]

The use of postage stamps on documents other than postal money orders was permitted from April 15th, 1915 through September 30th, 1923, and again, in most cases, from July 1st, 1931, through February 19th, 1953. Exceptions to the second period of postage stamp use occurred with foreign cheques, drafts and promissory notes paid within Canada and stamped by a bank.[2c, 6]

Use of the first excise tax meter, in the form of a modified postal meter, was approved by the Revenue Department in February of 1932.[7] Over time, these tax meters produced several different impressions. The first impressions consisted of a square ‘stamp’ mark that was accompanied on the left by a circular mark containing the name of the user (or other identifier) and a date. Later impressions partially or entirely omitted this circular mark. The ‘stamp’ mark was also altered. (For details see *CRN*¹ 29, January 2000, pp. 6-8.)

Aside of a short period of confusion in July-August 1931 that had arisen from an ambiguity in an amendment to the Revenue Act, postage meters were not permitted to be used in payment of the tax until December 10th, 1949.[7]

Tax Rates (●) and their Application (–)

April 15th, 1915 [2]
● 2¢ per document. (Figures 1 and 2.)

July 1st, 1920 [8]
● 2¢ per document for:
– Bills of Exchange (Drafts) payable on demand, at sight, on presentation, or within 3 days after date or sight (the statutory ‘days of grace’).
– Promissory Notes payable on demand to a bank against a loan.†
– Cheques, Money Orders, Travellers’ Cheques, Bank Account Withdrawal Receipts.
● 2¢ per \$100, or fraction thereof, of the amount of the document:
– Bills of Exchange (Drafts) payable after a specified time greater than 3 days. (Figure 3.)
– Promissory Notes other than those described above, Lien Notes when made payable to, or collected by, a bank. (Figure 4.)

Mid-November 1920 [9]
– The Revenue Department ruled that interest to be paid on a Bill of Exchange (Draft), a Promissory Note or a Lien Note was to be included in the total amount of the document for tax purposes.

August 1st, 1922 [3, 10]
– Definitions of ‘Cheque’ and ‘Promissory Note’ expanded to include other documents. (Figures 9 and 12.) See main text for details.
● 2¢ per document for:
– Promissory Notes payable on demand to a bank against a loan.†
● 2¢ per \$50, or fraction thereof, to a maximum of \$2 for documents of \$5000 and over:
(Continues in next column.)

(Continued from the previous column.)

– Bills of Exchange (Drafts) payable on demand, at sight, on presentation, or within 3 days after date or sight.
– Cheques (Figure 5), Money Orders, Travellers’ Cheques (Figure 6), Bank Account Withdrawal Receipts (Figure 7).
● 2¢ per \$50, or fraction thereof, with no maximum tax payable:
– Bills of Exchange (Drafts) payable after a specified time greater than 3 days.
– Promissory Notes other than those described above, Lien Notes when made payable to, or collected by, a bank.

Mid-June 1923 [9]
– The Revenue Department rescinded its ruling of November 1920, making interest on a Bill of Exchange (Draft), a Promissory Note or a Lien Note now free of tax.

August 1st, 1923 [6c, 11]
● The maximum tax, where applicable, was reduced to \$1 for documents of \$2500 and over (Figure 8).

July 1st, 1925 [4]
– Definition of ‘Cheque’ expanded again. See main text for details.
– An exemption was granted for Cheques, Money Orders, Travellers’ Cheques, Bank Drafts and Bank Account Withdrawal Receipts of an amount of \$5 or less. This exemption was not granted to Bills of Exchange (Drafts) that were not drawn on a bank, nor to Promissory and Lien Notes.
– The \$1 maximum tax was extended to all Bills of Exchange (Drafts) drawn on persons outside of Canada regardless of the time specified for payment.
– Newly liable to the tax were Bills of Exchange (Drafts) issued in Canada by persons other than banks or bankers for the purpose of selling foreign exchange and drawn on persons outside of Canada (presumably banks or similar establishments). Unlike other bills these documents were to be stamped at the time of issue rather than when transferred to a bank for payment.
– Promissory Notes held by banks as collateral security against an advance of money otherwise subject to an excise tax were exempt until paid by the maker of the note.

July 1st, 1927 ‡ [12]
● 2¢ per document (all types) of an amount over \$10. (Figure 10.)

July 1st, 1931 [6b, 13]
– Elimination of the exemption for documents of \$10 or less.

August 1st, 1931 [6b, c, 13]
– Cheques, Money Orders, Travellers’ Cheques, Bank Drafts and Bank Account Withdrawal Receipts of an amount of \$5 or less were exempted once again. This exemption was not granted to Bills of Exchange (Drafts) that were not drawn on a bank, nor to Promissory and Lien Notes.

May 2nd, 1932 [14]
● 3¢ per document of an amount over \$5, up to \$100 (Fig. 11 & 12):
– The exemption for items of \$5 or less was not granted to Bills of Exchange (Drafts) that were not drawn on a bank, nor to Promissory and Lien Notes.
● 6¢ per document of an amount over \$100. (Figure 13.)

May 1st, 1933 [15]
– The exemption for documents of \$5 or less was limited to certain special cases. (See ‘Special Exemptions’ below.)

February 20th, 1953 [7d, 16]
– Tax repealed by the budget speech of the previous evening, making February 19th its final day. (Text continues on page 9.)

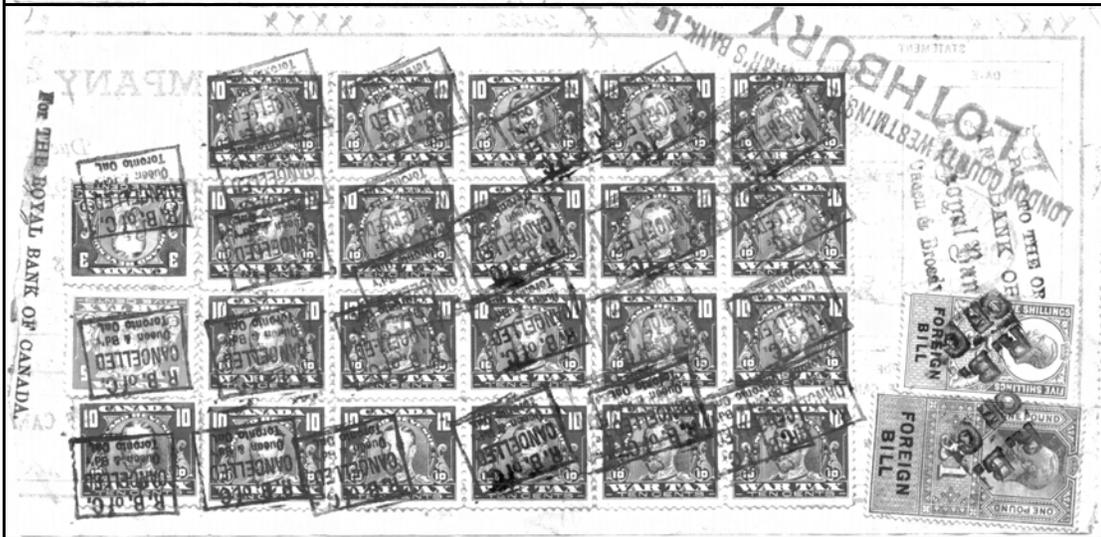
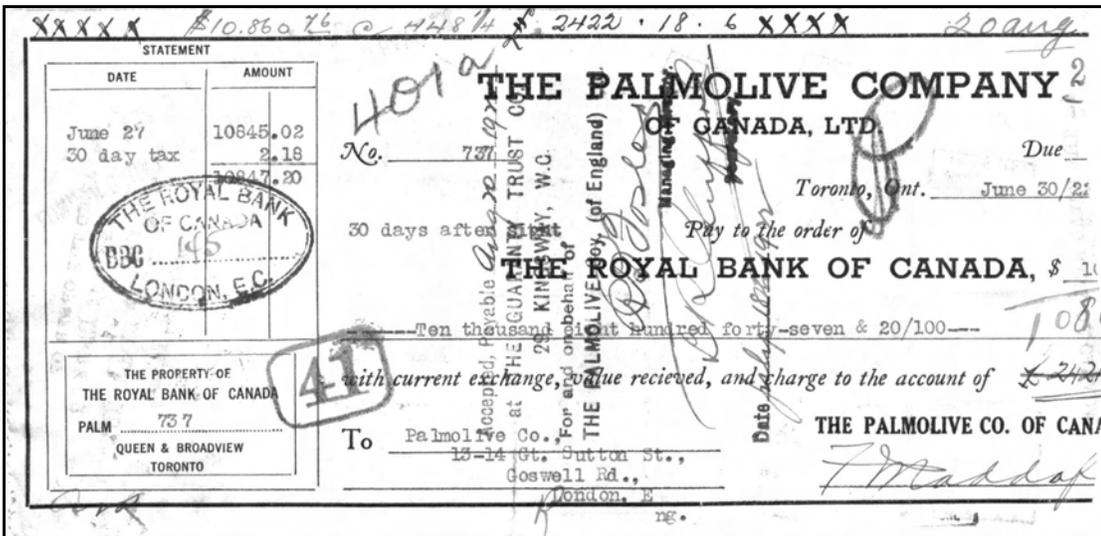


Figure 3: Time-draft of June 30th, 1922, for \$10 847.20 (£ 2422.18.6), drawn at 30 days after sight by The Palmolive Co. of Canada at Toronto, Ontario on The Palmolive Co., London, England and payable to The Royal Bank of Canada. The English company accepted the draft on July 18th and made it due on August 20th, 1922. Canada's excise tax of \$2.18 at the 1920-1922 rate of 2 cents \$100 was paid by twenty-one 10-cent, one 5-cent and one 3-cent George V war tax stamps. The draft also bears £1 and 5-shilling UK foreign bill stamps in payment of the British stamp tax. The Canadian stamps were cancelled by the Royal Bank's Toronto branch while the UK stamps were cancelled by the London branch. (72% of actual size.)

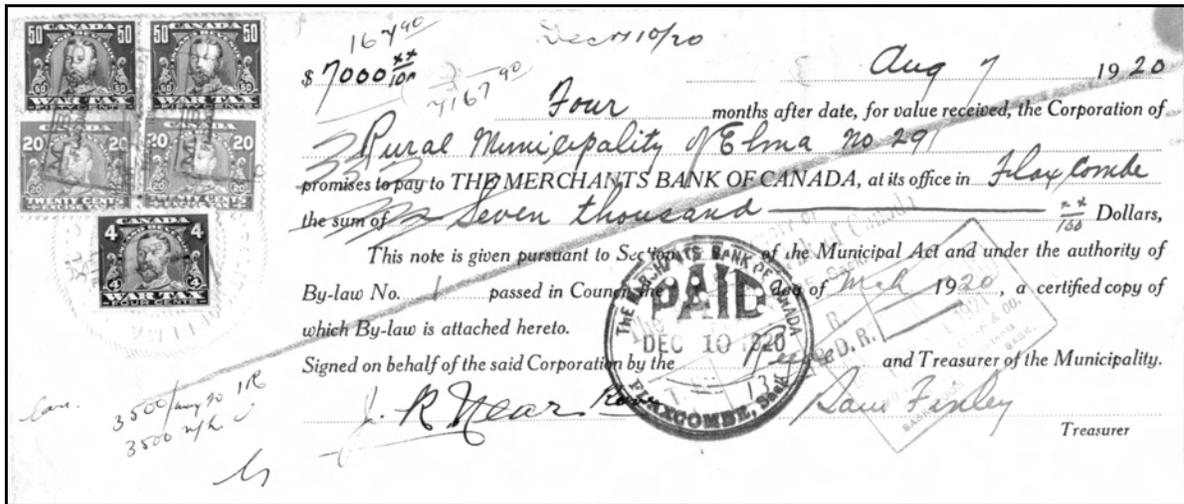


Figure 4: Promissory Note of August 7th, 1920, for \$7000 (plus \$167.90 interest) payable in four months time on December 10th, 1920. The note was issued by the Rural Municipality of Elma, Saskatchewan and was payable to The Merchants' Bank of Canada. The excise tax of \$1.24 at the 1920-1922 rate of 2 cents per \$100 was paid by 4 and 50-cent George V war tax stamps and 20-cent George V excise tax stamps. (68% of actual size.)

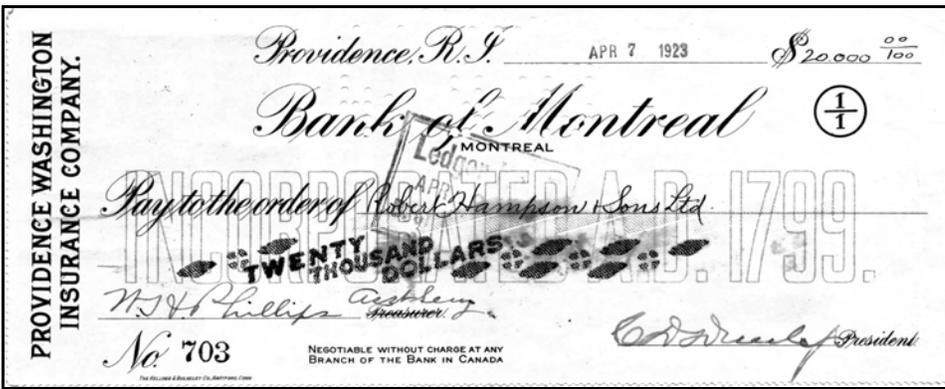


Figure 5: Cheque of April 7th, 1923, for \$20 000, drawn by the Providence Washington Insurance Co. on the central Montreal branch of the Bank of Montreal and payable to Robert Hampson & Sons Ltd. The 1922-1923 tax of \$2 for documents of \$5000 and over was paid by 20 & 40-cent George V excise tax stamps. (61%)



Stamps affixed to the back of the cheque.

Figure 6: Travellers' cheque of June 11th, 1924, for UK£5, issued by the Bank of Montreal on its London, UK office. The 1922-1927 tax of 2-cents per \$50 was paid by an embossed 2-cent war tax stamp at left. The UK tax was paid by a 2-penny adhesive at right. (66% of actual size.)



Figure 7: Bank account withdrawal receipt of December 3rd, 1926, for \$300.14 from the Prince George, BC branch of the Bank of Montreal. The excise tax of \$0.14 at the 1922-1927 rate of 2 cents per \$50 was paid by 4 and 10-cent Two Leaf excise tax stamps. The signatory of the receipt evidently purchased the required excise tax stamps from the bank as part of the withdrawal transaction. As a result, the amount of the tax was included in the taxable amount of the receipt. (62% of actual size.)

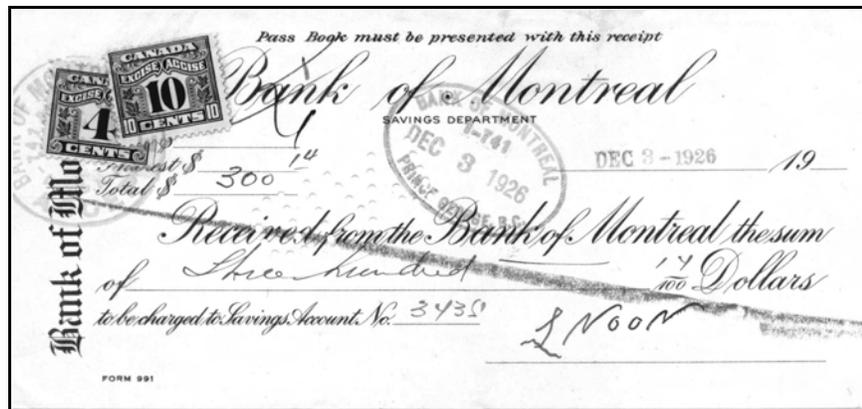
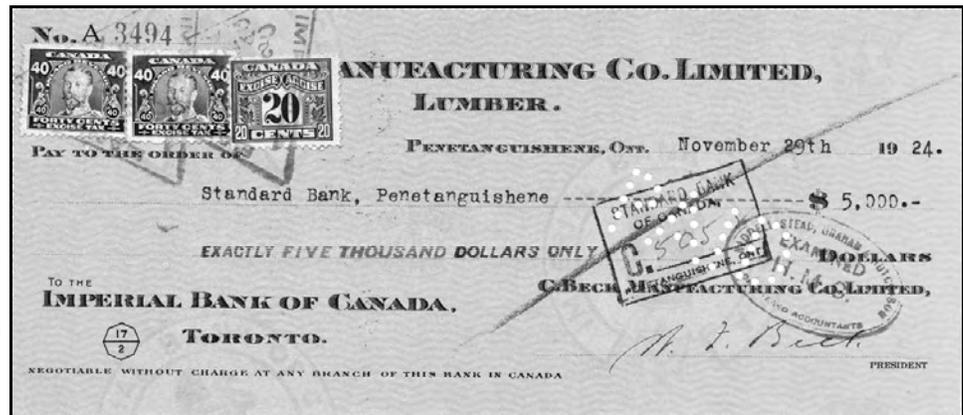


Figure 8: Cheque of November 29th, 1924, for \$5000. The 1923-1927 tax of \$1 for documents of \$2500 and over was paid by two 40-cent George V and one 20-cent Two Leaf excise tax stamps. (61% of actual size.)



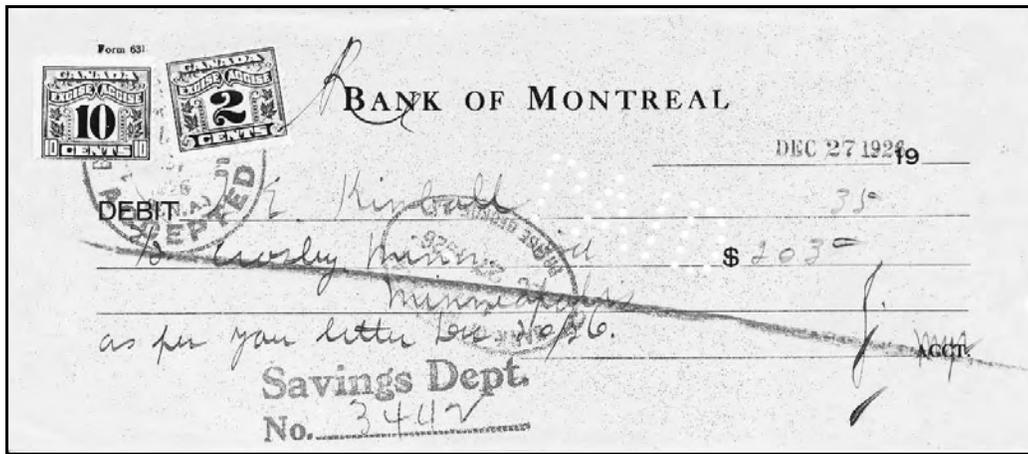


Figure 9: Debit-slip of December 27th, 1926, for \$203.35, issued by the manager of a Prince George, BC branch of the Bank of Montreal and taxed as a 'cheque'. The 1922-1927 tax of 2 cents per \$50 was paid by 2 and 10-cent Two Leaf excise tax stamps. The text of the slip reads as follows: "Debit S.E. Kimball. 2/2 Crosby Minn. via Minneapolis. As per your letter Dec. 20/26."

Starting with the 1922 amendment to the Revenue Act, any document addressed to, or drawn upon, a bank for which a person was entitled to be paid a sum of money was taxable as a 'cheque'. The debt-slip illustrated above would appear to have fallen within this expanded definition. A Revenue Department ruling on the matter has not yet been found. However, an examination of documents from the 1922-1953 period suggests that, excluding special exemptions, a debit-slip was taxable when it represented a payment made by a bank that was not otherwise covered by a taxable document such as a cheque.

A contrast to the situation in the 1922-1953 period can be found in a numbered series of thirty-four rulings issued by the Finance Department in April and May of 1915. In these rulings, the Department stated, in reference to three specific types of transactions, that an "ordinary", tax-exempt debit-slip could be used in place of a taxable cheque or "slip in the form of a cheque". (66% of actual size.)

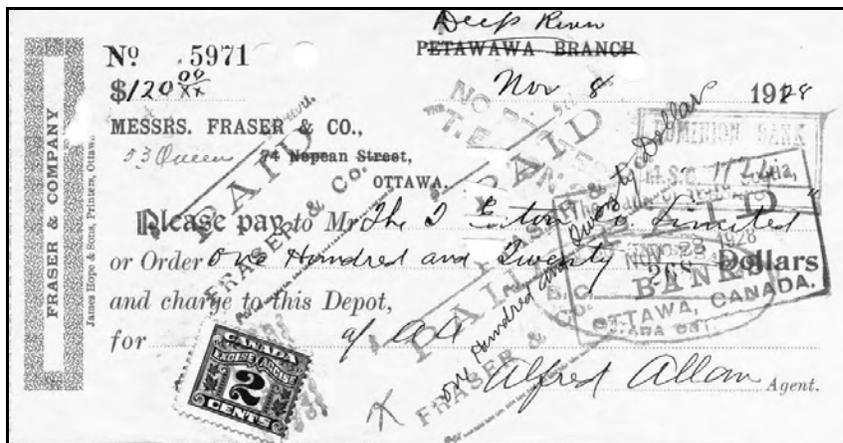


Figure 10: Demand-draft of November 8th, 1928, for \$120.00, drawn by Alfred Allan, the Deep River, Ontario agent for Fraser & Co., on the Ottawa office of the Company to the order of the T. Eaton Company. This draft was paid through the banking system and thus was taxable. The 1927-1932 excise tax of 2 cents per document was paid by a 2-cent Two Leaf excise tax stamp. (62% of actual size.)



Figure 11: Cheque of November 30th, 1938, for CAN \$29.59, drawn in The Netherlands on a Toronto, Ontario branch of the Canadian Bank of Commerce. The 1932-1953 Canadian excise tax of 3 cents for documents of \$100 or less (exemptions aside) was paid by a 3-cent Three Leaf excise tax stamp. The Dutch tax was paid by a 10-cent adhesive stamp. (64% of actual size.)

TO IMPERIAL BANK OF CANADA:

At South Porcupine \$ 100⁰⁰

THE UNDERSIGNED hereby acknowledges to have received this day from Imperial Bank of Canada (hereinafter called "the Bank") as a loan the sum of One hundred Dollars, which the undersigned hereby agrees to repay on demand, together with interest thereon payable as and when required by the Bank at the rate of 4 per cent. per annum from and including this date, at the counter of the above mentioned Branch of the Bank without any presentation of this contract or other formalities whatsoever being required, all of which are hereby expressly waived.

And the undersigned hereby pledge to the bank the following securities, namely,

17 B 2100958 M/c - 100

If space insufficient the schedule on back can be used and the words "as per schedule on the back hereof" inserted here.

and agrees that the said securities, together with all other securities heretofore or hereafter pledged or delivered to the Bank by the undersigned, including any securities which the Bank may allow to be substituted therefor or for any part thereof, and at the option of the Bank any other securities held by the Bank from the undersigned (all of which are herein referred to as the securities), shall at the option of the Bank be held by the Bank as continuing collateral security for the payment of the said loan and all interest thereon and of all other indebtedness and liability of the undersigned to the Bank either due or to become due and whether heretofore, now or hereafter contracted or incurred and all interest and all costs, charges and expenses incurred (all of which are hereinafter referred to as "liabilities") and the undersigned agrees to deliver to the Bank additional security or to make payments on account to its satisfaction upon demand and the Bank is hereby authorized, on default or without default and without demand of payment if in the opinion of the Bank or any officer thereof the said securities or any of them are depreciated or liable to be depreciated or on the insolvency of the undersigned and without notice to the undersigned and as and when and if the Bank shall think proper, to sell the securities or any part thereof and to apply the proceeds towards payment of the said liabilities or any part thereof as the Bank may see fit without prejudice to its claim for any deficiency. At any such sale the Bank may itself purchase the whole or any part of the securities sold free from any right of redemption on the part of the undersigned which is hereby waived and released, the undersigned hereby expressly waiving all and every formality prescribed by law in relation to any such sale and authorizing the Bank or any officer of the Bank as attorney irrevocable with power of substitution for and in the name of the undersigned to sign and seal all documents and to fill in all blanks in signed powers of attorney and transfers necessary in order to complete the transfer of the securities by the Bank or its officers to any purchaser, and to execute any and all documents whatsoever to carry out the intention of these presents.

The receipt of any clerk or other person producing a cheque or order of the undersigned shall be sufficient authority for the delivery to such clerk or other person of such securities as the Bank may see fit to relinquish.

The Bank shall have the right, but shall not be bound or required, to exercise any option or right which the holder of any of the securities may at any time have, and any advance made for such purpose shall be added to the liabilities, and all the provisions hereof shall apply thereto.

DATED this 24th day of July, 1948

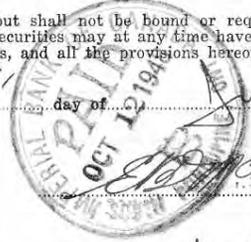

South Porcupine

Figure 12: 'Pledge of Securities for Call Loan' of July 24th, 1948, addressed to the South Porcupine, Ontario branch of the Imperial Bank of Canada and taxed as a 'promissory note'. The signatory of this document acknowledged the receipt of \$100 as a loan from the bank against a pledged security and agreed to repay the sum on demand with 4% interest per annum. The 3-cent Three Leaf excise stamp is cancelled with the date of the document.

Starting with the 1922 amendment to the tax law, the definition of a 'promissory note' was extended to include any document (except a bank note) containing a promise to pay a sum of money. The application of the statutory provision to the type of document illustrated here was probably made by a Revenue Department ruling of an unknown date.

It is unlikely that this document would have been taxed in the period of 1922-27 for the following reason. Statutory provisions of the time regarding the quarterly excise tax on bank loans allowed a credit where the loan was made against a promissory note payable on demand to the lending bank. This credit represented the tax stamp affixed to the note. No such credit was provided for loans made against pledges of securities. It can be inferred from this that pledges of securities were not taxed at that time. (The excise tax on bank loans was revoked in 1927.) (74 % of actual size.)

Special Exemptions from the Excise Tax.

Government Cheques

Cheques issued by the Federal and Provincial governments were exempt from the tax. This exemption applied not only to cheques issued by government departments and commissions proper (Figure 14), but also to private and semi-official cheques, drafts, *et cetera* where such documents represented government funds (CRN¹ 21, p. 3). Cheques issued by municipalities were not exempt from the tax.[2c, 17]

A September 1942 Order in Council extended this exemption to official United States government cheques when issued for ‘war purposes’. A December 1944 Order further extended this exemption on a reciprocal basis to all official cheques drawn by designated representatives of any foreign government on accounts in Canada. An Order of July 1948 exempted cheques issued by the United States Treasury for the purchase of Canadian materials for joint Canada-United States projects within Canada. All of the above cheques were to be marked by their issuer as exempt from the tax.[17]

First and Second World War Victory Loans

Regulations governing the issue of Canadian Victory Bonds during the First World War decreed that such issues were to “*be exempt from taxes . . . imposed in pursuance of legislation enacted by the Parliament of Canada.*”[18a] As a result, cheques given in payment for these bonds were evidently exempt from the tax (Figure 15).

A similar exemption was not granted to cheques during the Second World War. However, an exemption was granted as of September 1st, 1942, for the debit slips issued for deductions made from bank accounts subsequent to the initial payment.[18b, c] At the time, a debit slip representing a payment not otherwise covered by a taxable document was taxed as a ‘cheque’.[26] (See Figure 9.)

Foreign Postal Money Orders

Under international postal treaties, money orders issued by foreign postal authorities could not be taxed when cashed in Canada.[19]

Items Issued in Multiple Parts

When a document was issued in Canada in more than one part, such as a ‘First’ and ‘Second’ of Exchange, only the first part was taxable. Other parts were exempt provided that they were issued at the same time as the first part.[20]

Transfers between Bank Accounts

From the introduction of the tax, transfers between accounts in the same bank were exempt, provided that a debit-slip or other specially designated document was used. As of July 1st, 1925, this exemption was extended to the transfer of funds between accounts in different banks.[2d, 4a, c, 12a] (Figure 16)

Cheques Issued in Payment of a Bill of Exchange (Draft)

A notation on a cheque in the Author’s collection (see CRN¹ 25, p. 2) indicates that sometime in or before June of 1940 a Revenue Department ruling exempted cheques that were issued by a person or company in payment of a Bill of Exchange (Draft) drawn on that person or company.

Alaska Highway

A September 1942 Order in Council exempted cheques issued by contractors and the United States government in connection with the construction of the Canadian portion of the Alaska Highway. Special cheques, inscribed with ‘*Alaska Highway No Excise Tax Payable*’, were used. This exemption was revoked as of July 1st, 1947.[21]

(Text continues on page 11.)



Surcharged 50-centavo Cuban revenue stamp affixed to the back of the draft at left.

Figure 13: Banker’s demand-draft of May 3rd, 1951, for CAN \$366.35, drawn by the Trust Company of Cuba on the Colonial Trust Company, New York and payable to the Reliable Toy Company, Toronto. The Canadian excise tax of 6 cents for documents over \$100 was paid by a red excise tax meter at upper left. The Cuban tax was paid by a green, 50-centavo stamp on the back side. The Cuban stamp is surcharged ‘Recargo /20%/1950-1951’ in black. (68%)

Figure 14: Tax-exempt official cheque of the Legislative Assembly of the Province of Quebec, dated February 17th, 1922. (59% of actual size.)

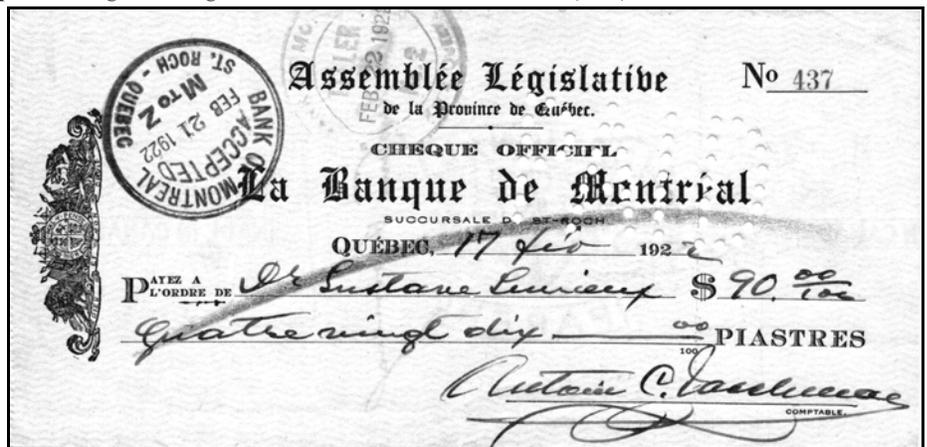


Figure 15: Tax-exempt cheque of November 15th, 1919, for \$10 000 paid to the federal Minister of Finance for First World War victory bonds. (66% of actual size.)



Figure 16: Order of September 16th, 1925, transferring \$1921.61 held on account at E. Rowland & Co., Bankers of Strathroy, Ontario to the Royal Bank of Canada, Strathroy Branch. As of July 1st, 1925, documents representing such transfers were tax-exempt. This status is noted at the bottom of the document. (63% of actual size.)

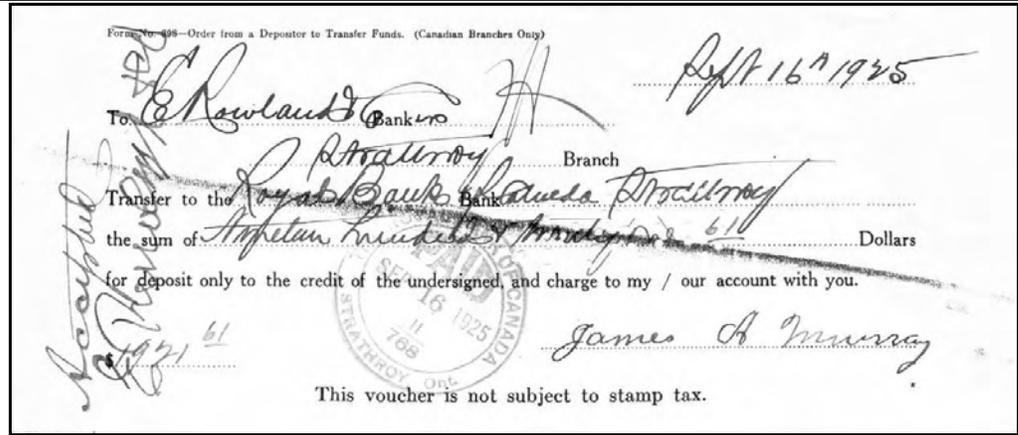


Figure 17: Postal money order of September 2nd, 1937, for \$3.23, with a tax-paid mark at lower left and marked at upper-left with a pale-green, five-line inscription that reads 'CREAMERY / ACCOUNT / NOT SUB- / JECT TO / STAMP / TAX'. (73% of actual size.) An enlargement of the tax-exempt mark is shown above.

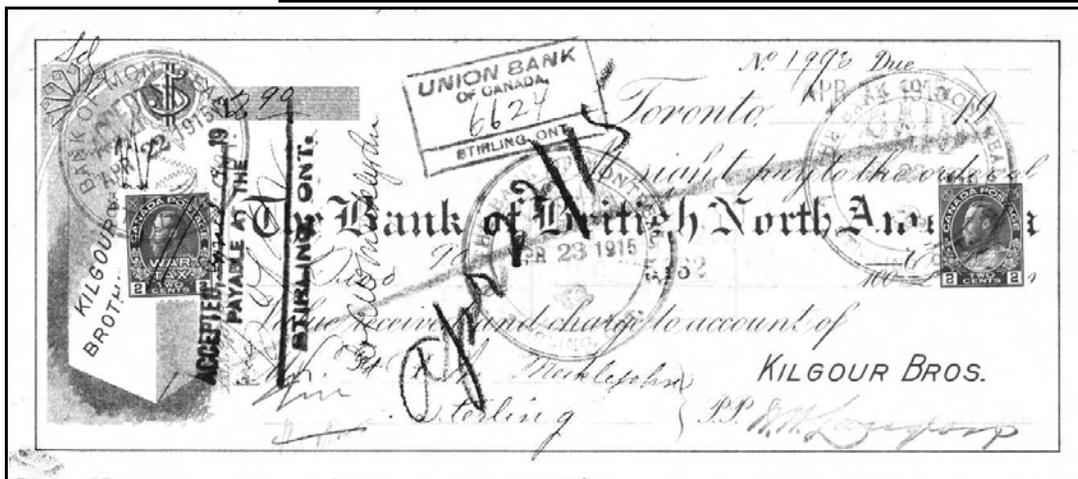
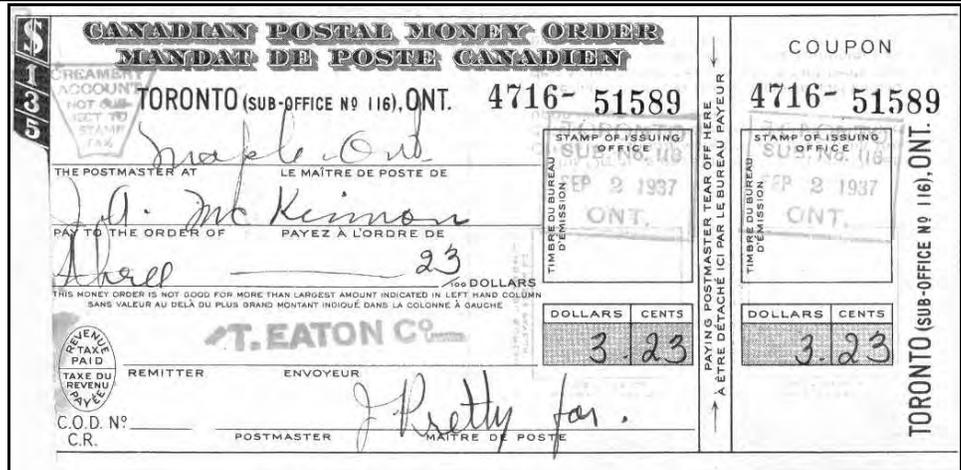


Figure 18: Sight-draft of April 14th, 1915, for \$2.90, drawn by Kigour Brothers of Toronto, Ontario on L.R.W. Meiklejohn of Stirling, Ontario. Due to an early interpretation of the law by banks, this draft was taxed at the 1915-1922 rate of 2 cents per item for both the transfer of the draft to the bank and the subsequent debit of Meiklejohn's account. In late-April 1915, the Finance Department ruled that only one stamp was required for such drafts. The various markings on the draft provide the following history: April 17th - delivered by Kigour Brothers to the Bank of British North America in Toronto, April 19th - presented to Meiklejohn by the Union Bank in Stirling and accepted by him, his acceptance cancelling the first stamp and making the draft due three days later at the Bank of Montreal in Stirling, April 22nd - presented by the Union Bank to the Bank of Montreal for payment, the latter's acceptance also cancelling the first stamp, April 23rd - Meiklejohn's account at the Bank of Montreal debited for the amount of the draft, with the debit being taxed by a second stamp. (63%)

Unemployment Relief;

Producers of Milk, Cream, Eggs, Poultry and Wool

As of May 1st, 1933, the previously general \$5 exemption was limited to cheques and money orders issued by **“butter or cheese factories to producers of milk or cream.”** Effective May 10th, 1933, this exemption was expanded to include cheques and money orders issued for the following purposes:

- **“For milk or cream to producers thereof.”**
- **“For eggs and poultry by egg and poultry exchanges to producers thereof.”**
- **“For wool to producers thereof by co-operative associations of wool-growers.”**
- **“By municipal corporations to persons in receipt of employment relief.”** [15]

Exempted items were required to be marked as such by their issuer.[15e, f, g] An example of a postal money order payable to a cream producer and marked as exempt is illustrated in Figure 17.

International Civil Aviation Organization

An Order in Council of July 1947 exempted official cheques issued by the International Civil Aviation Organization in Montreal. These cheques were to be inscribed with the statement ‘*I.C.A.O. Funds - Exempt from Excise Tax*’.[22]

United Nations

An August 1948 Order in Council exempted official cheques drawn on Canadian bank accounts by the United Nations, retroactive to January 22nd. An April 1952 Order extended the exemption to agents of the United Nations, retroactive to January 2nd. [23]

Multiple Taxation of Ordinary Commercial Drafts

There were three instances in which a typical commercial draft, drawn by a business on one of its clients, would have been taxed more than once. The first of these situations occurred at the 1915 introduction of the tax. Initially, an unknown number of banks and/or bank branches treated both the transfer of the commercial draft to the bank and the subsequent debit to the client’s account as taxable. An example of such a draft is illustrated in Figure 18. This practice was corrected by a Finance Department ruling in late April of 1915. (The Bank of Nova Scotia informed its branches of the ruling in an April 28th circular.) [2d]

The second instance of multiple taxation also occurred for a limited time in 1915. In an April 21st circular, the Bank of Nova Scotia informed its branches that commercial drafts presented by a bank to a client for their acceptance and then returned by the bank to the drawer would require a second tax stamp if given to the bank a second time for collection. In an April 28th circular, the Bank noted that the earlier ruling had been rescinded. [2d]

The third case occurred with commercial drafts presented for acceptance, refused by the client (the ‘drawee’) and presented again at a later date. In late April of 1915, the Finance Department ruled that these items were to be stamped only once, regardless of the number of presentations. By June of 1922, this ruling had been amended by the Revenue Department to require additional tax stamps for subsequent presentations where a change had been made to the text or date of the draft. It was their view that altered items were to be treated as completely new drafts. At a later date, prior to June 1937, the Revenue Department further ruled that additional tax stamps were not required in cases where the draft had been altered by the drawee with the permission of the drawer. [2d, 8a, 12a, 24]

Notes

† - As will be discussed in a future article regarding the excise tax on advances, the 1920-1927 statutory provisions for the stamping of demand-notes given to a bank against an advance of money appear to have not been

uniformly followed. In an unknown number of instances, the application of the 2-cent excise tax stamp to such notes appears to have not been done.

‡ - When the Revised Statutes were prepared in late-1927, the \$10 exemption was omitted in error for Bills of Exchange (Drafts) that were not drawn on a bank and for Promissory Notes. This error was not publicly acknowledged (and perhaps not even noticed) by the Revenue Department until mid-1929 when it was brought to their attention by a member of the public. Following discussions with the Banks, who had been unaware of the error, it was decided not to enforce what had been the law since February of 1928 when the Revised Statutes were brought into effect. The situation was corrected on October 31st, 1929, by an Order in Council. [25]

Acknowledgments

The Author would like to thank **Ian Wolfe** and **Lisa Singer** of the Scotiabank Group Archives for their assistance in finding circulars issued by the Canadian Bankers’ Association and by the Chief General Manager of the Bank.

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Specimen Bill Stamps (continued from page 1.)

- 1, 2, 3-cent vermilion, 4-cent blue, 5-cent green, 6-cent brown
- 7-cent orange, 8-cent blue, 9-cent vermilion, 10-cent blue
- 20-cent brown, 30-cent green, 40-cent vermilion, 50-cent brown

Another set in my collection, again in various colours, have the blue overprint 'CANCELLED' (British spelling) placed randomly across each stamp. An example is shown in Figure 3 and the details are presented below. (Note: 'UL' = upper left, 'LR' = lower right, etc.)

- 3-cent vermilion, overprint centred vertically on stamp (Figure 3)
- 4-cent blue, overprint reading diagonally down from UL to LR
- 5-cent green, overprint diagonal, reading up from LL to UR
- 6-cent brown, overprinted twice, one vertical on left side, the other diagonal, LL to UR.
- 7-cent orange, overprint diagonal, UL to LR
- 8-cent blue, overprint diagonal, UL to LR
- 20-cent brown, overprint diagonal, UL to LR
- 30-cent green, inverted overprint horizontal across centre
- 40-cent vermilion, overprint diagonal, UL to LR
- 50-cent brown, inverted overprint diagonal, UL to LR
- \$1 green frame, black centre, overprint vertical, across centre
- \$2 vermilion frame, black centre, overprint vertical, across centre
- \$3 vermilion frame, black centre, overprint vertical, across centre

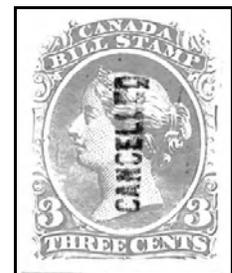


Figure 3.

The 'CANCELLED' overprint is also known on 5, 60, 80, 90-cent and \$2 green proofs of the 1864 Ontario law stamps.

