

Income Tax Act

of 1960, I think it was. It has remained at 15 per cent ever since. It was proposed that if the rates of withholding tax on dividends in general went to 20 per cent, as it was at one time contemplated would take place on January 2, 1965, then in the interests of uniformity and common sense, if I may say so, this tax rate should also go to 20 per cent. The intention is that it should be the same as the rate of the withholding tax which applies generally. As I indicated in the budget speech, if as a result of certain proposed reductions in the rates of United States tax, it is no longer considered necessary to increase the withholding tax to 20 per cent in January, 1965, then the tax on N.R.O. companies should be brought into line. It also did not come into effect.

Mr. Lambert: This is all very fine but, as my colleague indicated, this is in the nature of a bedtime story because it was a very convenient action by the United States government which allowed the minister this out. This is part of the big stick that was waved last year.

Mr. Martineau: Could the minister tell us how successfully this 20 per cent was in operation or whether, in practice, it was applicable?

Mr. Gordon: Is my hon. friend referring to clause 12 which we are now considering?

Mr. Martineau: Yes.

Mr. Gordon: It was never in effect.

Clause agreed to.

On clause 13—*Manufacturing or processing business.*

Mr. Lambert: Mr. Chairman, may I remind you of the procedure we had the other night, that while we do not pass the subclauses, yet we discuss them in order. I have nothing to add so far as the definition of manufacturing or processing business is concerned, but I would like to refer to subclause (3). I have made my comments with regard to subclause (2) as to the extension of time, but I am wondering why this change was introduced concerning "owned" as against "leased"? As it is, paragraph (a) referred to leased buildings and machinery, and I am asking why this concept of ownership is introduced at this particular time? Would there not have been, on the other hand, a particular paragraph dealing with properties and which were owned, because in the ordinary contemplation of drafting and the making of regulations one considers that assets are owned rather than leased? This is a minor amendment but to some degree it is enlarging the concept. Why was the change made?

Mr. Gordon: I was confused in my own mind too when I first saw the way this was presented with the words "owned or" underlined. The reason I am given for underlining these words is that they did not appear in exactly that form in the original section, but I should make it clear that the purpose of this is not to make any change between properties that are owned or leased. The purpose is quite different. It is in the qualifying test. It is to take into account the current value of properties rather than their written down book value. This is just to plug up a loophole that has been foreseen, and in the addition of the words "owned or leased" there is no significance at all.

Mr. Lambert: Then this raises the further question I had raised on second reading. With regard to the machinery and equipment, if it is to be 95 per cent new, why then do you have to introduce this distinction between fair market value and its actual capital cost? We are not considering goods that may be written down in value because they then will not be new, nor can buildings be new if they have already been subject to some write-offs for depreciation purposes. It may be a very narrow area.

Mr. Gordon: It is. I will see if I can give a capsule explanation and, if I cannot, I will read the full explanation that I have here. It is to avoid a situation where most of the machinery or equipment was old machinery or equipment written down to, say, a dollar on the books of the parent company, and then the new manufacturing or processing business would go out and buy a few typewriters and desks and perhaps an automobile or two, or some relatively small amount of new assets, and because the great bulk of the assets were written down to a dollar, 95 per cent of the book value would be represented by the price of the new typewriters and the new desks, and this, that or the other thing. It is just to see, in that kind of test, that the assets written down to a dollar in the books would be taken into account at fair market value.

Mr. Lambert: In order to arrive at 95 per cent for new machinery and equipment?

Mr. Gordon: That is right.

Mr. Hales: On this point of owned or leased buildings, equipment and machinery, in the starting up of an industry in a designated or depressed area I am wondering why we want to put in "leased." It is conceivable that a company could lease a building, could lease some machinery, go into a designated area and get the incentives now spread over a period of three years and, at the end of three