

Income Tax Act (No. 2)

Mr. Lambert (Edmonton West): That is merely consequential. We will then return to clause 1.

The Chairman: The hon. member for Winnipeg North Centre on the same point of order.

Mr. Knowles (Winnipeg North Centre): Mr. Chairman, this is more clear and is acceptable.

The Chairman: I think hon. members of the committee are agreed on the way we will proceed. Initially we will start on page 1 and page 2 down to line 31 in the English version and line 38 in the French version.

Mr. Lambert (Edmonton West): In the first block, Mr. Chairman, we are considering what you might call the major manufacturing and processing corporations and the proposal of the Minister of Finance in his budget of May 8, 1972, to reduce the profits of manufacturing and processing corporations by 10 per cent. Actually, with the efflux of time and with the Income Tax Act itself picking up one percentage point, the figure is 9 per cent.

As I and my leader have said on a number of occasions, corporate business throughout the country has been woefully ignorant about precisely what the minister did propose. I must say I found that the Canadian Chamber of Commerce and a number of other organizations had an interest in this question. The Canadian Manufacturers Association, by inference and certainly as a result of discussion with a number of their representatives, had the impression that corporate profits as a whole were being reduced by 10 per cent, which is why they became so agitated about what they felt was a delay on the part of certain people.

First of all, we note that this was proposed on May 8, 1972. The proposal then went through the trying fires of an election campaign. One cannot say it received an overwhelming mandate in that campaign, because if one looks outside the province of Quebec there were by far more people voting against the government than voting for the government. If the parliamentary secretary wants to be technical about it, I will show him that more Canadians voted against the government than for it—60 per cent of those who voted, voted against it.

● (1540)

The minister and the government have insisted that this is primarily a counter-DISC measure. This was to put Canadian processing and manufacturing in a better position to compete in face of the American DISC program. I suggest to you, Mr. Chairman, that there are other methods to help Canadians counter American measures that would be efficacious and would not attract particular attention and possible retaliation. One must understand American taxation laws and their general principles. They have flexible tools for retaliation through duties, and their fiscal system is very flexible on the basis of executive action.

To single this out as a counter-DISC measure immediately invites the attention of those interests in the United States that are strong advocates of DISC, which has a stated economic objective, to take further action against Canada. I want to place this particular measure in pers-

[Mr. Turner (Ottawa-Carleton).]

pective. The minister suggested that it was an economic tool that would guarantee a cure for many ills. I am not so sanguine about it, but as the Leader of the Opposition has said, a lot of people had faith in the government's budgetary proposal. We said we would see this measure along part of the road but would not see it as a permanent feature of the corporate tax system.

Tied in with this was what was proposed by regulation, the accelerated capital cost allowances. Initially the budget proposed that these be open-ended; there was no terminal date announced on May 8, 1972. It was only on February 19 of this year that the minister, perhaps to placate some NDP objections to the capital cost allowance program, said that he would impose a two-year limitation on the program and that there would be a review of it. I hope that review will take in capital cost allowances on residences not occupied by the owners. When the hon. member for York South talked about deferred taxes and capital cost allowances being corporate rip-offs, he did not say that those self-same things are applicable to individuals of very modest status and have the same effect under the Income Tax Act.

I shall talk about deferred taxes, although they are not germane at this point. A deferred tax for a corporation is the same as a recapture of depreciation on non-residential premises or non-occupied residential premises by an individual. He is allowed depreciation which according to the market is not the true rate of depreciation because the market shows that the property is appreciating. When the house or small apartment block is disposed of there is an increase in value, a recapture of depreciation. That has created a capital flow. The fact that the owner has been able to deduct depreciation during the years of ownership has put capital in his pocket—a loan from the state without interest, if one follows the argument of the New Democratic Party. It is the same with the individual as with the corporation.

In any event, this was done in the budget of February, 1973. With the latter portion provision, the limitation to two years, I am in sympathy, but it was said that a one-year limitation would be imposed upon it to the end of 1973 in respect of goods acquired or committed. The period is not much greater under capital cost allowances. But I say that the reduction to 40 per cent for manufacturing and processing is discriminatory in Canadian corporate tax, particularly where the manufacture and processing of commodities are in the area covered by the bill.

If one looks at the exceptions clause one will see that a great number of goods produced in Canada will not be covered by this bill. We are looking at a small sector of the economy. The service industry, which represents 60 per cent of Canada's economic activity, is not taxed at all. It is paying a 7 per cent increase in income tax this year; it is not actually 7 per cent but it is 5. something. For 18 months it enjoyed a 7 per cent tax cut. Now it is paying the full rate. Surprisingly, Mr. Chairman, a number of businessmen come to me scratching their heads saying, "Do you know that those so-and-so's have increased the tax on corporations?" We say "Yes, we told you so".

What I have to say about the attitude of the CMA and their letter, and so forth, is not printable in polite circles. I think there was a fundamental misunderstanding of the