of capital gains is that governments want at some time to realize the tax on the gain. If one is allowing a roll-over of the property—this applies to all property mentioned in the proposals—at death, it would be possible for someone to hold shares in widely-held public corporations, hold on to them through several generations with a consequent great increase in value, and the tax would never be collected. I believe that in the case of trusts in Britain there is now a periodic revaluation. In the United States, partially because of this sort of problem, I understand they are now proposing to put a limit on the life of a trust.

It is a difficult problem to deal with. One might say that one should only collect the tax when the securities are sold. If one did that and allowed a roll-over at death, which would not force people to pay the gains tax and the estate tax at death, the shares in question might pass through the hands of several generations without tax being collected on the increment in value, whereas other Canadians would be paying tax on the increment in value of other assets of which they had disposed.

Mr. Lewis: Mr. Speaker, at this point may I ask the minister a question. He dealt only with shares in widely-held corporations and closely-held corporations. Would this five year revaluation also apply to land, and other assets of that sort?

Mr. Benson: No, Mr. Speaker, it would not apply to any other assets. Under the proposals put forward by the government in the white paper, it would apply only to shares in widely held corporations.

The third issue that has been raised with me in the past three weeks concerns so-called small business. In fact, as the discussion progresses it becomes clear that the real issue involved is the 21 per cent rate of tax that now applies to the first $35,000 of annual profits earned by a corporation.

It is important that we understand just exactly what we are discussing here. We are not discussing the businessman who runs the service station or the corner store. These people are not incorporated as a rule, so very few of them get any benefit from the 21 per cent corporate tax rate.

In 1967 over 450,000 Canadians paid tax on their business profits at personal rates because they were unincorporated. This group includes about 50,000 doctors, lawyers and other professionals who are barred from incorporating. However, this leaves 400,000 other business men who did not get any benefit from the low corporate tax rate. These, I believe, are the real small businesses in Canada.

Compared with the figure of 400,000 individual businesses, only 94,000 corporations paid tax in 1967. Of these, only 46,000 had assets under $100,000. These figures correspond with my experience when I was practising some time ago. Very few of my clients had the 21 per cent rate in mind when they went into business. Most of them went into business for other reasons and then incorporated to take advantage of the 21 per cent rate when the businesses concerned began to do really well. When they got to the point where they saw they could save money by paying the 21 per cent rate, whether or not they needed the money in the business, they would incorporate to postpone tax; and at interest rates that run up to 10 per cent, a postponement of taxes is very valuable.

Let us now try to put this 21 per cent rate in perspective. Under the existing system, an unincorporated proprietor or a wage earner encounters a tax rate of $23\frac{1}{2}$ per cent as soon as his taxable income reaches $2,000. Just as Canadians want to be assured that the wealthy are paying their fair share of taxes, these proprietors, these small businessmen, these 400,000 unincorporated people, who are paying taxes as individuals, must be shown that those who own corporations are also paying their fair share.

The proposed system contains higher exemptions and rates have been raised to focus the benefit of those exemptions on the lower income groups. As a result the first rate in the schedule will be $21\frac{3}{4}$ per cent. Therefore, the 21 per cent rate for corporations would be even more unusual under the new system than was the case previously.

Some commentators have suggested that every incorporated business would suddenly face an increase in tax rate from 21 per cent to 50 per cent. This indicates that they have not understood the white paper. It is clearly indicated in the paper that the profits of closely-held corporations would bear tax only at the personal tax rate of the shareholders. In some cases, this would be accomplished by treating the corporation as a partnership, and in other cases by giving shareholders full credit for the tax.

What would this mean in some typical cases of corporations owned by a taxpayer