

Hon. Mr. BALLANTYNE: Before the honourable senator from Wellington speaks, may I point out that while it is true that in Great Britain excess profits are subject to 100 per cent tax, of which 20 per cent is refundable after the war, there is no corporate tax in that country. That makes a big difference.

Hon. C. B. HOWARD: Honourable senators, I suppose everyone finds fault with a tax bill on general principles, but it seems to me that a tax on excess profits is probably less unpopular than any other. The principle of this Bill is based on the establishment of what is called a standard profits period. The standard profits of a company or corporation are determined by taking the profits for the years 1936, 1937, 1938 and 1939 and dividing them by four. It is taken for granted that any excess profits made since 1939 were at least partially due to war conditions. If it happens that in any year during the standard period there was a division of profits by a subsidiary or controlled company, whereby the amount paid into the original company that year was so large as to throw out the average, then the standard profits are calculated by disregarding that year, taking the profits for the other three years and dividing by three. Similarly, if in one year of the standard period a company showed a loss, the profits for the other three years are totalled and divided by three to get the standard.

Under last year's Bill the tax was 22 per cent on the total profits or 75 per cent on the excess profits, whichever was the greater for taxation purposes. And a corporation whose profits did not exceed \$5,000 was formerly exempt from tax. But this Bill imposes a tax on the profits of all corporations up to \$5,000 at the rate of 12 per cent, plus 18 per cent income tax. Companies with profits in excess of \$5,000 pay 12 per cent, plus 18 per cent income tax, plus 10 per cent of the total profits, or 100 per cent of the excess profits, whichever of the last two taxes is the greater. Companies whose profits are less than \$5,000 do not pay the 10 per cent on their total profits, nor the 100 per cent on their excess profits.

I know that many honourable senators on reading this Bill will come to the same conclusion that I did, that some parts of it are pretty hard to understand. So I will give a concrete example to illustrate how these taxes work out. Let us take a company whose profits are \$10,000, with standard profits established at \$5,000. First, it would pay 18 per cent income tax on the profits of \$10,000, or \$1,800. Secondly, it would pay 12 per cent excess

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profits tax on the \$10,000, which would mean another \$1,200, or \$3,000 in these two taxes. Then it would pay either 10 per cent on the \$10,000 or 100 per cent on the excess profits, whichever tax was the greater. In this case the greater tax would be the 100 per cent on the excess profits. That is, it would pay 100 per cent on the \$5,000, less the 18 per cent income tax and the 12 per cent excess profits tax already taken, which would bring this tax to \$3,500. By adding \$3,500 to \$3,000 we find that a company with a standard of \$5,000 and a profit of \$10,000 would pay \$6,500 in taxes and have left \$3,500, or 70 per cent of the standard profits.

Some honourable senators may ask, as has been asked already, "When does the 100 per cent excess profits tax apply?" It applies when the taxable profits exceed the standard profits by more than 16.66 per cent, or, in other words, when the excess profits exceed 116.66 per cent. For example, let us take a standard profit of \$100 and a taxable profit of \$116.66. At that point a tax of 10 per cent on the total profits amounts to \$11.66, exactly the same as 100 per cent on excess profits. So the break-down point on the new schedule is excess profits of 116.66 per cent.

I have two official documents here, but I think it is hardly necessary for me to read them, as what I have said covers the scope of the Bill. A question may be asked with regard to page 2. Supposing a company's profit was \$5,100. If you took 10 per cent of that it would be \$510, but subsection 2 of new section 3 provides that the profits shall not be reduced below \$5,000. So in this case you would take off only \$100.

Hon. Mr. BALLANTYNE: Would the honourable senator explain the application of the Bill with respect to depressed years?

Hon. Mr. HOWARD: The question of a depressed year in the standard fixation will be subject to decision by the referees. I think the Minister may refer the matter to his referees or he may make a decision himself.

Hon. Mr. BALLANTYNE: Hear, hear.

Hon. Mr. HOWARD: In any case, the verdict of the referees is subject to the Minister's approval.

Hon. Mr. JONES: The appeal would not go before the Board of Referees.

Hon. Mr. BALLANTYNE: I am afraid that few companies are allowed to put their case before the referees. The Minister of Finance takes a look at the appeal and says "No," and that ends it. I do not mean he says "No" all the time, but very few cases get before the Board of Referees.