

Income War Tax Act

tion and reducing the rate, in the case of the small corporation that is making only \$5,000 a year, you are under the present proposal practically doubling his tax as compared with that the man would have paid on \$5,000 last year. I am not objecting to an income tax; let those pay who can. What I am objecting to is the difference and discrimination existing as between these various businesses, and against the one that is run as a little corporation for its own purposes, its own convenience, and it is entitled to run it in that way; the law provides for that. I do not see why there should be such a tremendous increase in the income tax of a man carrying on business in that way.

Mr. RHODES: May I at once thank my hon. friend for his courtesy in discussing this matter with me personally the other day in my office and for leaving with me the figures, some of which he has just mentioned. He takes the case of a man who has an income of \$5,000 and who, if he were taxable as an individual, assuming he was a married man with an exemption of \$2,000, would pay an income tax of \$120. The figure that my hon. friend submitted was, I think, \$126.

Mr. EULER: I added the surtax.

Mr. RHODES: The tax is \$120. If the same man were an incorporated company with an income of \$5,000, according to the figure as submitted by my hon. friend the tax would be \$713.75. That is correct, but my hon. friend has overlooked the fact that the man with the income of \$5,000, when he pays his income tax, receives his exemption. If he becomes incorporated, as in the instance prepared by my hon. friend, he has no provision in that to pay his own salary; he has worked for nothing.

Mr. EULER: No.

Mr. RHODES: Then my hon. friend is not comparing comparable things. He has given the case of an income of \$5,000 obtained by an individual and that of an income of \$5,000 obtained by an individual who has become an incorporated company. In the one case he is giving the instance of a married man with an exemption of \$2,000 and in the other that of a company which has a straight income of \$5,000—

Mr. EULER: No.

Mr. RHODES: —but in that case the man has to pay himself a reasonable salary as manager of the business which he owns himself. If he does that, he will find that he is in precisely the same position as the individual with the married man's exemption. That is

[Mr. Euler.]

the fact. But let me point this out to my hon. friend, and I take no exception to his remarks: he is making a plea confined to a restricted number of individuals. He is taking the case of a man who becomes an incorporated company. The number of instances of that character would be negligible, but even if it were not, the situation would be met by the man receiving a reasonable salary and the income tax officials advise me that a reasonable, fair salary would, in those circumstances, be allowed. Otherwise, why incorporate? While my hon. friend, and quite properly, is making his plea with respect to this restricted class of companies, he must bear in mind that at the same time we are dealing with thousands of companies who, by reason of the exemption of \$2,000 being removed, will pay an additional income tax and this means a substantial sum in revenue. Even if the injustice, which I do not admit, were apparent in the case instanced by my hon. friend, he must look at the picture in the large and realize that we are dealing with all companies in Canada; that they are all treated alike, that the \$2,000 exemption is obliterated in every case, and lastly, and what is very important from my point of view at least as Minister of Finance, this involves a considerable increase in the revenue derivable under the income tax.

Mr. EULER: I cannot let the minister get by with the statement that the matter of salary—and perhaps his officials have so said, and I make that remark without any offence—must be considered. The matter of salary does not appreciably affect the picture that I have drawn. In the figure I gave, there was \$5,000 profit in each case and I took it for granted that in each case the business had paid a salary. Supposing the salary is \$3,000 a year; all you need to do in each of those cases is to add to the man's income for taxation purposes that \$3,000 and the picture will not be appreciably changed at all. You cannot get away from the fact that that \$5,000 for the little joint stock company is immediately subjected to a tax of 12½ per cent, or \$625, which is far greater than that borne by the single proprietor. I am not making a plea for the big corporation because, the larger the profits, the less is the discrimination. I am speaking only on behalf of the smaller one and I deliberately took the figure of \$5,000, as a modest figure, to show what a tremendous discrimination there was. I would ask the minister to have it figured out. The matter of a reasonable salary in both cases, say \$3,000 if you like, will not greatly alter the tremendous discrimination that exists in the two instances.