

Income Tax Act

funds are invested in short-term paper or bank accounts. This exception will be relatively unattractive.

For the life of me I cannot understand the treasury's or the government's preoccupation with excess funds that are ultimately going to come to the government anyway in the form of tax but which in the interval are going to be put to work either in government obligations or in obligations in some other concern. They are invested and are a reserve against unforeseen eventualities. They are part of an accumulation used for expansion, not this year but next year or the year after.

I want to be as charitable as possible, but this is not the first time I have run across this sort of thing. When dealing with Treasury years ago I came across the idea that once a dollar has been made, the Crown had the right to take its share at once. Since when has it had that right? What God-given right has the Crown to say that as soon as \$1 is earned by business, the Crown gets its share; that the Crown must exact its pound of flesh? It will ultimately get its share, but straight away envious eyes are cast on those dollars.

As a matter of fact, that was the motivation behind the proposal in the white paper for the work accomplished accrual basis. As soon as the work had been completed, presumably the dollars had been earned and the Crown was entitled to its share. I have heard the Minister of Finance himself say that the Crown had the right to its money. Nothing could be further from the truth, yet at this particular juncture we have another example of this philosophy.

The two-tier system of tax assessment was inserted into the legislation precisely to assist small business to accumulate capital for expansion purposes, so that small business did not have to pay out dividends that would be subject to tax, that it would not have to spend money immediately in the year in which it was earned. It was allowed to accumulate capital since other avenues of financing were not open to small business.

I have heard Liberal Ministers of Finance expound on this theory of what they were doing for small business. The two-tier system was introduced by a Liberal administration, and I use a capital "L". Then it was expanded by Hon. Donald Fleming when he was Minister of Finance so that small business was able to accumulate capital for expansion purposes. Now we have the present administration acting on God knows what philosophy of taxation. From cover to cover of this blue-covered book there are disincentives, and this is one of them. As I say, this money will come to the Crown in due course. The fact that it is invested, that it is earning income, that it is going to produce a substantial expansion of business or that it may be paid out as dividends where it will attract its full share of taxation, matters not; there will be a disincentive at this particular point. This is one of the more regrettable features.

As chairman of the committee on finance, the parliamentary secretary will recall that when we put together our recommendations we thought there would be something akin to the two-tier system to help small business, which quite frankly is having one hell of a time competing not only nationally but internationally. I would ask the committee to reject section 125 and section 189.

[Mr. Lambert (Edmonton West).]

Mr. Ritchie: Mr. Chairman, the original purpose of the reduced rate—the two-tier system for small business—was to allow small business to accumulate capital in larger amount than corporations. The original thought was that small business had a distinct disadvantage when it came to procuring money to assist business expansion compared with larger corporations. Indeed, I do not think there is any doubt that that was the case. The problem arises here of so-called equity of taxation. If one company for various reasons can procure capital to expand its operations faster than some other company as a result of its size or its situation, then equity of taxation becomes difficult to accomplish.

During the hearings on the white paper on taxation many representations were made in regard to the small business deduction. No one that I am aware of felt that the premise of a two-tier system for taxation of companies was not a valid one. Large companies who felt no need for this system agreed that a strong business sector made up of small corporations was valuable to the country. There was no argument that the small company receiving taxation benefits that would not aid in the growth of the country and would not aid in increasing the economic status of our industry. In the proposals in Bill C-259 it is obvious the government has retreated a great deal from the idea of a two-tier system. It has so hedged the act that the benefit will not be really as great as it has been. I think this is unfortunate.

• (8:20 p.m.)

Wherever one goes in this country one finds that representatives of small business companies say it is becoming more difficult for them because the tax structure, the various actions of our government and the happenings in the market place seem to be placing small business at a disadvantage. Yet at this time the government has chosen to increase the disadvantages which were present in the old act. I believe this is regrettable because in the last few weeks, by the action of the U.S. through its surcharge and DISC proposals and because of the European Common Market, we face a general darkening of the trade outlook. A country such as Canada, with its scattered and small population, needs the ingenuity and entrepreneurship of our very important individual Canadians in order to provide the jobs that are so necessary for our expanding labour force of the seventies.

I view with considerable regret the action of the government in respect of the taxation of small business. I should like to discuss the small business deduction. Generally speaking, the proposal is that the taxable income of all corporations will generally be subject to a single federal corporate tax rate, which for 1972 will be 50 per cent and which will be reduced, starting in 1973, by one percentage point a year to a rate of 46 per cent in 1976 and subsequent taxation years. What will happen next year applicable to small business is something I do not believe the minister has pointed out, in view of the fact that it is to be a 7 per cent reduction for the year 1972 in corporation tax.

The special rules will apply to Canadian-controlled private corporations as defined in Bill C-259, section 125(6)(a). All resident private Canadian corporations that are not controlled either by non-residents, public corporations or a combination of both, will qualify for a special