

Income Tax Act

The situation here could become extremely difficult. Suppose citizen A, a Canadian, owns controlling shares in corporation X. By his will he bequeaths his interest to his son who, just before his father's death, decides he will live in the Bahamas or, even better, he does not go to the Bahamas—because that is a voluntary decision—but is posted abroad by the international company for which he works, and is resident abroad. The son might be working for a Canadian international firm, say in Australia or in Indonesia—working for the Canadian nickel interests out there. He inherits the shares from his father in this Canadian-controlled private corporation. And what happens? The small corporation's status is lost. That is a completely involuntary result of this operation.

That is the effect of the law. Mind you, the tax would not become exigible if control was acquired by a Canadian public corporation or if the company itself went public though it appear that in both these cases subsequent conversion to a private corporation controlled by non-residents would trigger the tax. But for a private company to go public is something which is accomplished only at great cost. It is not too easy a step. Frankly, if a private corporation goes public it means it has abandoned the thinking behind the two-tier system; it is going public because it wants access to public sources of finance. That is the principal reason it voluntarily abandons its status as a private corporation.

It certainly appears that the required refund of the small business deduction tax saving is likely to depress the price a non-resident is prepared to pay for the shares of the corporation, particularly where the price placed on the shares is close to break-up value. When taken together with the deductibility of interest on money borrowed to buy shares, it should place acquisition-minded Canadian corporations in a better competitive position vis-à-vis their non-resident competitors.

• (9:20 p.m.)

That may be so, but I say that in many instances this will not be the result. As I have already said two or three times this afternoon, this is part of the policy of the government in regard to foreign ownership. Or is it? Certainly is an expression of it. Yet we are asked in a back-handed way to define Canadian policy on foreign ownership by the piecemeal discussion of various clauses of a tax bill. To me this is quite wrong and reinforces my earlier argument and that of my colleague for Peace River, as well as the argument of the Leader of the Opposition, that these particular sections must be deferred so the government can make up its mind what it is going to do about foreign ownership. Why ask us to place the cart before the horse? In fact, you usually know what kind of horse and what kind of cart, but in this instance the government has not even spelled out the kind of nature of either the horse or the cart.

It may be that I shall want to address further remarks tonight to this subject, but I would appreciate it if someone would allow me to negotiate the various sections I want to discuss so that we can make some progress.

The Assistant Deputy Chairman: Shall the amendment carry? The hon. member for Waterloo.

Mr. Saltsman: Mr. Chairman—

The Assistant Deputy Chairman: Order. I thought the hon. member for Laurier was leaving his seat. The Chair recognizes the hon. member for Laurier.

[*Translation*]

Mr. Leblanc (Laurier): Mr. Chairman, I did not intend to participate in the debate but after hearing the hon. members for Waterloo (Mr. Saltsman) and Edmonton West (M. Lambert) who were on the Committee of Finance, Trade and Economic Affairs, I could not resist the urge to say a few words on the corporate income tax.

I challenge the hon. member for Waterloo to prove the accuracy of the figure of \$400 million. I have studied the summary of the bill of fiscal reform published when the budget was brought forward on June 18 last. It contains instances of changes to the income tax payable by corporations during the first year of the new system's implementation. Based on 1968 incomes, the increase would have amounted to \$20 million and on 1972 incomes, it will amount to \$30 million.

The member for Waterloo could perhaps explain how he arrived at the figures quoted in the House? In addition, he delivered, as usual, a rather eloquent speech and I wish to congratulate him, especially for his comments on incentives for small businesses.

As mentioned by the hon. member for Edmonton West, the Creditistes must again explain not only how we have provided for incentives in Bill C-259, but how they would have proceeded to perform such a task.

Evidently, the legislation is complex. Speaking to the Canadian Tax Foundation last week, the Minister of National Revenue (Mr. Gray) stated that we are living in a rather complex industrial community and that when we want to make exceptions in a legislation to make sure that incentive will only be profitable to the small business, we are compelled to establish some formulas to be certain that contrary to what is provided under the present act, big corporations do not benefit from incentives provided to small businesses.

The hon. member for Edmonton West said that corporations are now purging themselves. They do purge themselves for a very simple reason: so that the surpluses accumulated before December 31, 1949 be freed and distributed free of charge to the shareholders, which means that for the shareholders who are going to receive them, these will be non-taxable. This seems interesting enough as an incentive.

Corporations are also purging themselves so that surpluses accumulated since 1949 become non-taxable, by paying only 15 per cent, so that they be distributed free of charge to shareholders. We realize then that companies might be prompted to purge themselves so that their shareholders benefit from the generosity of the federal government under the bill now considered, in the course of transitional periods, because, obviously, beginning in 1972, the new act shall be effective.

As the hon. member for Edmonton West was saying, incentives to the small business serve to encourage Canadians to invest in Canadian corporations; at the present time, that does not seem to be happening. In fact, an analysis of statistics relating to investments by Canadians shows that such investments take the form of bond purchases and bank deposits, rather than investments in