11. The free intercorporate flow of dividends associated with the dividend tax credit system would continue the problem of the ""incorporated pocket-book" which has escaped the personal corporation rules.

12. Many tax systems do not recognize that any form or degree of integration or removal of double tax is justified in view of the likelihood that the corporate tax is not borne by the shareholder but passed on in whole or in part to customers, labour or suppliers.

To many people the dividend tax credit approach is doubly objectionable because not only does it treat corporate tax as a partial repayment of personal tax but gives credit even where no corporate tax has been paid.

13. Full integration is difficult to achieve with a dividend tax credit; and its lack can, in a sense, be said to encourage "dividend stripping", i.e. the tax-free withdrawal of corporate surplus. This problem became so serious at one point that it led to the reintroduction of ministerial discretion in our statute (section 138A(1)) and also was a prime motivating factor in establishing the Royal Commission on Taxation in 1962.

IV. *Proposed Integrated System Using Gross Up and Credit Mechanism—Advantages*

1. Permits accurate measurement to attain policy objective, i.e. credit for Canadian corporate taxes paid.

2. Flexible from a policy standpoint; i.e. "flow-through" of tax incentives at corporate level and/or foreign taxes can be passed on in whole or in part—permits selective regulation for fiscal purposes.

3. Easily accommodates to a "time limit" rule for creditable tax, because the source of the dividend is an integral part of this system; i.e. creditable tax is determined at the corporate level. Therefore, with a high degree of integration, if the revenue drain necessitates a time-limit rule because the system contemplates rebates, it can be accomplished; alternatively, if revenue drain is not a problem, time limit can be eliminated.

4. Provides rebate to low-rate taxpayers.

5. Reflects accurately the impact of the progressivity of our tax system; i.e. the relief is in balance and proportion to the progressive personal tax rate—a truer form of integration.

6. Flexible in the sense that different levels of integration could be extended to different quantums and categories of corporate income, i.e. full integration on first $50,000, half integration on remainder. Useful fiscal instrument.

7. Accommodates the White Paper proposal to "flow-through" portion of foreign withholding tax.