

*Income Tax Act*

are not here—the Hudson's Bay Company is a good example—carry on substantially all their business in this country and have their shares listed on the Canadian stock exchange. It is desirable that Canadians should increase their share ownership in this kind of company, and the purpose of the amendment is to remove the tax deterrent to the acquisition of such shares by Canadians. That is the purpose of it.

**Mr. Lambert:** In this connection I am wondering why the arbitrary figure of 85 per cent has been selected. If I recall correctly from my business experience, the provision in the United States tax law is 75 per cent.

If I recall exactly, this permitted them to incorporate companies in the Dutch West Indies which were rather large operations. I may say this is one of the tax havens found throughout the world, and if the United States can take advantage of it I do not know why Canada cannot similarly take advantage of it, where operations could be conducted on scores of millions of dollars a year, with headquarters in the Dutch West Indies, provided that 75 per cent of the revenue comes from abroad. In such a case a company could operate in the United States and could operate in Canada, with the bulk of its operations in Canada, yet it got the benefit of both worlds, Canada and the United States, with about 2 per cent income tax payable in the Dutch West Indies. Why was this 85 per cent selected?

**Mr. Gordon:** I am sure the hon. member would not like us to become the Dutch West Indies of the northern hemisphere. There is no significance to the 85 per cent. It would be quite satisfactory to me to make it 90 per cent. The only reason I did not make it 100 per cent is because companies of that kind presumably have had offices and may have a little business going on somewhere else, but the purpose was to indicate that substantially the whole of their business should be in Canada, if they were to qualify in this way. I would not like to make it less than 85 per cent, but I would have no objection to making it more than that.

**Mr. Lambert:** This is an amending provision and the minister uses the word "substantially", but he comes down to 85 per cent. As the one making the change, the burden is on him to establish why there should be this level of 85 per cent as against, say, 75 per cent. What are the compelling reasons to make it 85 per cent?

**Mr. Gordon:** Just that 85 per cent is more substantial than 75 per cent. I cannot do

better than that. I would prefer it to be higher.

Clause agreed to.

On clause 10.

**Mr. Lambert:** Would the minister give us an explanation why he is repealing this section? I agree it was experimental in its inception, but it was the burden of a good part of my speech on the resolution stage. This was an incentive based on sales, and I would put it to hon. members that in so far as business is concerned the success or lack of success of any business is ultimately on sales.

**Mr. Gordon:** Profits.

**Mr. Lambert:** Well, sales and profits. You are not going to have profits if you do not have sales, and the selling philosophy after all is the ultimate factor. The minister is well enough versed in politics to know that unless he can sell the philosophies of his own political party he might as well stay at home. There are other points I might indicate where, unless you are able to sell, you might as well not start your operation.

There is no point in developing factories and commercial establishments to produce goods if you are not going to sell them, and of course we anticipate selling them to cover something more than their cost. Again I ask, why was this abandoned?

**Mr. Gordon:** This is being abandoned because this particular concession has been strongly criticized on various grounds. I will mention four of them.

**Mr. Lambert:** The burden is on the minister.

**Mr. Gordon:** Yes, the burden is on the minister, and I do not mind this particular burden because I remember a year ago criticizing this particular form of incentive very strongly. These are now criticisms that have been received, quite apart from my own efforts in that regard.

First of all, since dollar sales were the measure upon which the concession was calculated, the emphasis was upon sales volume rather than upon efficiency. Thus taxpayers had an incentive to increase prices or to achieve increased sales in uneconomic ways in order to earn some forgiveness of tax. There was a certain amount said during the last few days about the price of sugar, and if this section remains, then because the sugar companies will be increasing the dollar value of their sales—

**Mr. Lambert:** Abroad?

**Mr. Gordon:** No, in Canada—it has nothing to do with exports—they would get a tax