

taxes to the provincial authority, surely the federal authority must make the records available.

**Hon. Mr. Hayden:** I do not know what records they are talking about.

**Hon. Mr. McCutcheon:** I do not know, but if I were the provinces I would want to know whether the federal authority had collected the proper amount of money.

**Hon. Mr. Hayden:** And if you were the federal authority you might have a little different idea, or if you were the taxpayer you might have a different idea.

I should call your attention to the fact that on page 24 there is a new definition of "in Canada". You would not think that would present many problems, but the reason for this is to make sure that in the offshore areas for exploration for oil and gas taking place, there is a clear assumption in law that such expenses are deductible under section 83A of the Income Tax Act. The reason for that is that in the section of the Income Tax Act they refer to drilling and exploration expenses that are incurred in connection with such operations, drilling or exploring for petroleum or natural gas in Canada. So, to remove it beyond doubt, they say this is what it means.

There are one or two other matters I would like to bring to your attention. For once I was not a voice crying in the wilderness. I refer to the section at the bottom of page 10. In our Income Tax Act for many years we have had, under section 70, a kind of company called a non-resident-owned investment corporation. It had to meet special tests, such as, I think, 95 per cent of the shares had to be held by non-residents, and there were certain conditions or certain sources of income. If there was a certain source of income you could not have in excess of a certain percentage. One of the things you were permitted to do, without limitation, was to deal in and trade in securities, et cetera. The special rate of tax for such companies is 15 per cent under the act, and when the dividends are dispersed there is no withholding tax. But the test for the determination of what is proper in the case of a particular company is a higher, a different and a tougher one in the way of allowances you do not get than in the case of an ordinary corporation. This is carried on for years. The minister has announced that effective March 29, if an n.r.o. company trades or deals in securities on or

after that date, it shall be subject to the full corporate rate.

The way in which the resolution was drawn, I think, would have left the situation that if the fiscal year of such a company ended on April 15, and it had operated for all of previous period of its fiscal year under the law as it was, conforming to all the requirements of the law, and then carried on its operations during the next 15 or 17 days according to the way the amendment in this bill was drawn, then those operations would have contaminated all the operations of the fiscal period and made them all subject to the full corporate rate. That would have been retroactive taxation of the worst order.

When I was discussing this with the department I was quite bold about saying that I would misinterpret the attitude of the Senate if I thought it was going to allow retroactive legislation increasing taxes. I told them that I thought the Senate would agree to a retroactive measure decreasing taxes, but not increasing them. Accordingly, you will find an amendment at the bottom of page 10 which corrects what I call that inequity. Clause 6 (3) reads:

Subsection (1) is applicable to dividends and interest received after March 29, 1966, and subsection (2) is applicable to taxation years ending after that day but for the purpose of determining whether the principal business of a corporation for the whole of the taxation year of the corporation that includes March 30, 1966 was trading or dealing in bonds, shares or debentures or any interest therein, the whole of such taxation year shall be deemed to be that portion of the taxation year that is after March 29, 1966.

So it corrects the situation, and we do not have to worry about that when we get to committee.

There are a few provisions in the bill that deal with special situations which can be clarified in committee. They occur so rarely that I am not going to take up the time of the Senate in explaining them. However, I do want to call attention to the 5 per cent refundable tax to which Part IID is devoted. This Part starts at page 12 and goes through to page 17.

**Hon. Mr. McCutcheon:** A normal amendment—six pages.