

Estate Tax Act

When this motion was debated in the house last December the hon. member for Edmonton West (Mr. Lambert) had this to say, as recorded at page 5617 of *Hansard* for December 9, 1963. He was referring to what Dr. Eaton, the former deputy minister of finance, had to say:

Dr. Eaton has a very theoretical and nice sounding proposition in the lengthy quotations we got from the parliamentary secretary, but this presupposes that owners of a concern are masters of all the factors and that they can plan to the nth degree. Let me assure him that I am concerned with companies where one cannot do so. I can cite a case of one of our better growth companies, controlled by four men in their forties, which had to be sold to what I am sure was foreign capital because the principal shareholder could not get any insurance. He was uninsurable. This was a growth company where there were no accumulative reserves. The principals drew good salaries but their capital was tied up in the shares of that company and its subsidiaries. If you cannot get a term insurance with a buy-sell agreement, how can you protect the interests of the estate and the remaining shareholders who must make some provision for eventualities? There was no doubt in my mind that against the potential assets of the principal shareholders of this company there was going to be a substantial tax assessment. I know of other cases where Canadians have lost control. I am not going to name the companies; they came through knowledge acquired in my legal practice.

Yet the parliamentary secretary says we do not come forward with concrete examples. I communicated with the Canadian Institute of Chartered Accountants and was informed—and I quote:

While many of our members in public practice know of many cases where businesses have been sold because of the looming threat of estate taxes, because of the professional relationship with their clients they are unable to divulge the information you require.

I can well understand that men in these positions are not at liberty to divulge certain things.

On May 21, 1964, the *Financial Post* came out with an article headed "In Five Years These Firms Have Been Sold Foreign". It stated that in just five years control of 143 Canadian firms had been acquired by foreign investors. I am sure we can say that a large percentage of these sales was made because the owners knew of the succession duties which would be facing those companies. I know it is always known what succession duties will be payable. Owners are advised by their lawyers or accountants that the law is as it is, and that there is no use making objection. The tax will have to be paid and they, or their heirs, will have to get the money together with which to pay them within the allotted period of six months.

[Mr. Hales.]

This is a serious problem. I am not so concerned about the situation in which the large companies or corporations find themselves, though no doubt these succession duties affect them acutely. I am more concerned about the number of small businesses, family owned businesses, which find themselves in a precarious position when the time comes to round up enough money to pay succession duties. I think we are all agreed that death duties in Canada are extremely high. For instance, a company with a taxable income of \$1 million has to find \$300,000 in succession duties. The duty on a \$2 million set-up would be \$800,000. On a taxable income of \$250,000 succession duties would amount to \$44,000, and on a taxable income of \$160,000 they would amount to \$19,000. It is the problem faced by these smaller firms to which I would refer the house particularly.

I know it has been said that these firms should carry insurance to take care of these eventualities. That is all very well, but there are types of business which just cannot follow such a course. For one thing, they may not be insurable, because of health reasons or other reasons including age. Then again, if life insurance is taken out to cover the situation, it only adds to the total value of an estate and makes the taxable amount so much greater. I would point out that there are many family businesses which are just making a living for their owners. The business is being held together, but there is not enough money available to pay premiums to take care of succession duties. The business is composed of land and buildings, paid for, granted, but there is no money available from which to pay these succession duties within six months. Yet, under the act as it now stands, no provision is made for the payment of these duties over a more extended period of time.

I do not wish to take up the time of the house much longer because I know there are many who wish to speak on this subject. I have been most encouraged by the interest which has been shown in the subject since I first introduced the motion to this honourable chamber. Editorials and letters which have appeared in the press in support of my suggestion have been gratifying. Maybe I should put one or two of them on record—I hope I will be pardoned for the personal references in this connection. The *Windsor Star* printed an editorial headed "The Nub of the Problem" which read as follows: