

the aid of a larger corporation for management purposes. The product of the small company might be entirely different from that of the parent company. Such transactions as that are viewed with suspicion under this bill.

The CHAIRMAN: Are you thinking of the case where the minority shareholders of the subsidiary companies would be different in each company?

Hon. Mr. McLEAN: Yes, I could name dozens of companies of that kind who would be penalized. Perhaps 50 per cent of the minority shareholders are not in the management at all; they sought management outside, and there was no objection whatever to that when the companies were set up. If you want to prevent that kind of thing from being done in future, all right, but I say that this should not be applied to the companies that are already set up. I think it is extremely unfair and that some amendment should be made. And I would point out, Mr. Chairman, that this is our last opportunity for dealing with it.

Hon. Mr. CAMPBELL: Mr. Chairman, I would like to refer to subsection (4), which says:

For the purpose of this section, one corporation shall be deemed to be related to another in a taxation year if, at any time in the year,

- (a) it, directly or indirectly, controls the other,
- (b) it is, directly or indirectly, controlled by the other, or
- (c) both corporations are controlled, directly or indirectly, by the same person.

Senator McLean has made quite a good point here, but we must bear in mind that prior to the introduction of this legislation all the companies to which he refers were subject to the higher rate of tax. In other words, they were still related companies and were paying at 33 per cent. This reduction in tax to 10 per cent on the first \$10,000 is a relieving provision, and there must be some control such as is contained in this bill, because in the complexity of industrial life there are a great many subsidiary companies. For instance, a steamship company might be operating 30 boats, each in a separate company, and without some control such as this each of these companies might pay only 10 per cent on its first \$10,000 of earnings, whereas another company having all its boats under its own name, would be taxed at the higher rate. That would be a discrimination in favour of the operator who had a number of companies. The explanation has been made that the purpose of the legislation is to benefit the small businessman and not the person who controls many companies. True enough, it is a bit of a hardship on the minority shareholders, but it is very difficult to provide for all cases.

Hon. Mr. McLEAN: In answer to Senator Campbell, may I say, your steamship companies have set up separate companies so that the liability will not be so great; you have got full benefit all these years, and you will have it in future years. They have set up those companies with their eyes wide open. The companies to which I refer set themselves up without knowing anything about this Act; they have not done so to limit their liability. That is self-evident.

Hon. Mr. CAMPBELL: The steamship companies did not set themselves up to escape taxation.

Hon. Mr. McLEAN: They had a purpose in doing it but that is not so with the small companies I am talking about.

Hon. Mr. DUPUIS: May I say a word, Mr. Chairman, although I am not a member of the committee?

The CHAIRMAN: Certainly.