Governments have done that before. Ontario did it lately, and we did it here in respect of cigarettes, as the Minister admitted.

Hon. Mr. DANDURAND: I will read what the Acting Minister of Finance, Hon. Mr. Ilsley, said about the excess profits tax in his Budget speech.

It is an extremely difficult matter to devise an excess profits tax which will be fair to all kinds of businesses. No one who has not attempted to draft such a measure can appreciate the range of thorny problems involved. In the first place the normal rate of profits is not the same for all industries. Risks are far greater in some businesses than in others and, accordingly, the rate of return must be higher if such risky industries are to obtain the capital they need and to survive. They would be severely discriminated against under a general measure which taxed all profit above a common level on the assumption that the annual rate of return should everywhere be the same. Furthermore, not all businesses require the same proportion of capital in relation to value of output. Thus under normal conditions with no excess profits being made, the ratio of profits to capital of a company in a business using relatively a small amount of capital will appear abnormally high even though there be no profiteering. Thus, while an excess profits tax based on rate of return on capital may be entirely fair and reasonable over a wide range of industry, there are instances where it would operate with undue hardship. This should be recognized at the outset and provided for.

The United Kingdom in its recently imposed tax on armaments profits adopted the method of imposing the tax on the increase in the amount of a firm's profits as compared with the average profit made by the firm in recent years. This method assumes that profits in the selected base years might fairly be regarded as normal, and therefore that any increase over this normal rate is the measure of excess profits due to war conditions. The United Kingdom taxes such abnormal profits at the rate of 60 per cent. The method may work with reasonable fairness in the United Kingdom for the limited number of companies to which it applies, but in Canada it would not be satisfactory for a measure of general application because a number of our industries have not been making normal profits in recent years, and indeed in some cases have not been making any profits at all.

It is obvious therefore that each of the two general methods of taxing excess profits which I have discussed would operate unfairly in certain cases. After much study and careful consideration with a view to being fair to all types of business, it was decided to combine the two methods as alternatives in the measure which we are recommending to the House. Accordingly, a business concern may elect to be taxed on either one of the two bases, that is to say, either on the basis of a graduated scale of rates of profit on capital employed, or on the increase in profits over the average of the past four years. Where one basis might give rise to injustice or hardship, the business concern may elect to be taxed under the alternative basis. It is believed that this arrangement will have the effect of reducing to a minimum

any injustices or undue hardships which might be inherent in either of the two methods used alone.

With regard to rates of taxation, the following schedule will apply where the taxpayer elects to be taxed on the basis of percentage return on capital employed:—

On that portion of profits in excess of 5 per cent and not in excess of 10 per cent, a rate of 10 per cent.

On that portion of profits in excess of 10 per cent and not in excess of 15 per cent, a rate of 20 per cent.

On that portion of profits in excess of 15 per cent and not in excess of 20 per cent, a rate of 30 per cent.

On that portion of profits in excess of 20 per cent and not in excess of 25 per cent, a rate of 40 per cent.

On that portion of profits in excess of 25 per cent, a rate of 60 per cent.

Where the taxpayer elects to be taxed on the alternative basis, he will be required to pay to the Treasury 50 per cent of any profits in excess of his average annual profits in his previous four fiscal periods. In view of the increase in the tax on corporate profits, to which I shall later refer, this will mean a tax of approximately the same severity as that applied to armament profits in the United Kingdom.

It should be pointed out at once that this tax on excess profits is to be levied on all businesses whether incorporated or not and whether increased profits are the result of war contracts or not. The reason for its application to all business firms is, of course, that under war-time conditions it is impossible to distinguish between the firm which is making larger profits directly because of armament orders and other firms whose profits are expanding as a result merely of a higher volume of business or possibly a higher price level due to war-time conditions. Furthermore, the excess profits tax will be in addition to all other taxes currently in force. In this respect the present measure differs from the business profits war tax which was levied during the last war. At that time business corporations paid either the corporate income tax or the business profits war tax, whichever was the higher. Under the new measure which we are recommending, the corporate income tax will be regarded as an expense in calculating the amount of excess profits for tax purposes. That is to say, it is the amount of profits left in the hands of a business concern after paying income tax which will be subject to the excess profits tax. This new tax will be applicable to profits earned in the year 1940 and in the fiscal periods ending therein after March 31, 1940.

I should add that problems arising out of certain special circumstances will be provided for in the Bill. We must also contemplate that if Canadian industry is to be able to meet the urgent demand for war supplies that will arise, it will probably be necessary to provide for the construction of new plant or important extensions to existing plant and equipment. Particularly if business men expect the war to be of short duration, they will not be willing to assume the risks of making the new investment required with an excess profits tax as