to levy these taxes; but these agreements are about to expire, and by January 1, 1957 all will have expired. By this amendment the federal Government has increased the tax credit of 5 per cent and 7 per cent in the case of different types of corporations, as it now exists, to 9 per cent of a corporation's taxable income earned in any province.

Let me give an example of that situation.

If a corporation's income from a given province is $100,000, the federal rate now is 47 per cent. Under the amendment, instead of 47 per cent, it will be 38 per cent, or a reduction of nine percentage points. This credit of nine percentage points is given whether the province levies a corporation tax of 9 per cent or less. Say a given province levies a 6 per cent corporation income tax, and also imposes other special corporation taxes amounting to say 3 per cent of the taxable income of the corporation. In that event the corporation would pay 38 per cent to the federal Government and 9 per cent to the provincial Government. So in effect what the federal Government is doing by this rule is vacating these two portions of the corporation tax field, to the extent of nine percentage points.

There is a further factor to consider. If a province levies a special corporation tax plus a corporation income tax in excess of 9 per cent of the corporation's taxable income earned in the province, obviously there will be some double taxation. To reduce the amount of that double taxation, the excess of the tax paid to the provinces over and above the 9 per cent is allowed as a deduction in computing the income for federal tax purposes of that corporation.

Hon. Mr. Hackett: Is that a distinction between the individual who is personally taxed and the corporation?

Hon. Mr. Connolly (Ottawa West): Yes; it is quite obvious that is the main distinction.

Let us take by way of example a situation where a corporation must pay to a province a 6 per cent corporation income tax and special corporation taxes of the character I have just described, such as a tax on a place of business, amounting to, say, 5 per cent of the income which it earns in the province. The total therefore paid to the province is 11 per cent of the income which it earns there. This is 2 per cent more than the 9 per cent tax credit allowable by the federal authorities. Now, say that that 2 per cent amounts to the sum of $1,500: under this amendment the federal authority will allow the company to deduct that $1,500 when it computes its income for federal tax purposes.

Hon. Mr. Euler: It allows that deduction from the income, not from the tax itself?

Hon. Mr. Connolly (Ottawa West): Not from the tax, from the income. It is a deductible expense allowed to the corporation.

Hon. Mr. Euler: It gets you coming and going.

Hon. Mr. Connolly (Ottawa West): Yes.

Hon. Mr. Howard: We shall need another Senate committee.

Hon. Mr. Connolly (Ottawa West): I am glad the honourable senator from Waterloo (Hon. Mr. Euler) asked that question. It was a problem which gave me trouble. Originally, I had thought it was a deduction from the tax, and I believe there is a general opinion abroad that that is so; but it is allowed as an expense to the company paying the tax.

Hon. Mr. Euler: I do not think anyone can understand why it is done, except that the Government will get more money.

Hon. Mr. Connolly (Ottawa West): I suppose that is the reason.

So much for the amendments dealing with federal-provincial fiscal arrangements.

The next heading under which I would discuss the amendments proposed in this legislation affects the petroleum industry. The first of these is to be found in section 3, subsection 6. It arises out of a case decided by the Supreme Court of Canada in the fall of 1955 called the Home Oil Company *versus* the Minister of National Revenue. By way of preface I might say that the income tax law has always allowed the oil companies and the mining companies, first of all, to deduct exploration and drilling expenses incurred by them as a cost of doing their business, and, secondly, to claim a depletion allowance of 33⅓ per cent of the net profits from either oil or mining production. The depletion of 33⅓ per cent is given in view of the fact that in both industries the asset is considered to be a wasting asset. It was always believed that the law provided for these deductions to be taken in this order. It was also always believed, and it was the intention of the legislation, that the operations of an oil company or of a mining company should be looked at as a unit.

To shorten the explanation, may I say that the Supreme Court of Canada in the Home Oil case said: "Although that may be the understanding, that is not what the law says." The understanding of the department may have been that way, but the legislation did not say it that way and therefore this company and indeed any company for the years 1949 and 1950—because there were special