On section 4—No tax on profits earned on and after January 1, 1948.

Mr. PROBE: Before this section carries, will the minister tell us whether in the field of corporation tax anywhere the department considers it necessary to adopt the principle of ability to pay in connection with taxation? I should like to refer him to the fact that in the personal income tax field the rates are made progressively steeper as the income of the individual rises. So far as I can see, no such principle is recognized in differentiating between small and large corporations. I am, of course, personally opposed to section 4 and do not wish to see the excess profits feature removed from taxation. But apropos of this, will the minister give us some indication if and how the factor of ability to pay, which I think is a recognized principle, is applied in the field of corporation tax?

Mr. ABBOTT: Of course the corporation tax field is a big one. When you tax a corporation as such you are taxing a legal person. It is really a tax on what would otherwise be distributed to the shareholders, and to that extent it may be regarded as a double tax. There has been a good deal of discussion in the house and elsewhere that we should try to work out a system analogous to the English system whereby a certain standard tax is deducted by the corporation and then the taxpayer takes credit for that in his own personal tax return. Our system follows the system which was established in the United States and, except for the so-called excess profits tax during the war, it has taken the form of a flat percentage tax of the company's net income. In a sense, that does not take into account ability to pay because the corporation is a corporation; it is not an individual. When the shareholder gets his dividend, then the progressive feature comes in and the shareholder pays his tax.

If I remember correctly, in the proposals which were put out in connection with the suggested agreements with the provinces it was indicated that if and when agreements were made with all provinces it would be possible to make some revision of the corporation tax structure, but the progressive feature is not a feature of the corporation income tax structure. The obvious answer is that a good many wealthy men own small companies and a good many poor men own shares in big companies. As my hon. friend appreciates, this question of the taxation of business or

corporation profits is a complex one and it is hard to say where the final incidence of the tax will fall.

Mr. PROBE: The minister referred to the fact that our corporation tax structure is based on that of the United States.

Mr. ABBOTT: Not based on it, but similar.

Mr. PROBE: There is one important point of difference. In the United States the principle of capital gains is adopted, whereas with us capital gains are disregarded entirely. Would the minister care to express an opinion on introducing that feature into our field of income taxation?

Mr. ABBOTT: That is a very large question. It has always been foreign to the British conception of an income tax. Some of us may remember during the days of the depression that it has disadvantages, and I have never been able to see great advantages. It has always seemed to me that a capital gains tax lent itself to methods of evasion which I personally am not very much in sympathy with.

Section agreed to.

Bill reported, read the third time and passed.

SPECIAL WAR REVENUE ACT

Hon. DOUGLAS ABBOTT (Minister of Finance) moved the second reading of Bill No. 271, to amend the Special War Revenue Act and to change its title to the Excise Tax Act.

Motion agreed to, bill read the second time, and the house went into committee thereon, Mr. Golding in the chair.

Sections 1 to 3 inclusive agreed to.

On section 4—Tax on railway, et cetera, ticket.

Mr. FLEMING: I have a question with regard to the last clause on the page reading:

> The governor in council may reduce the rate of tax imposed by subsection one of this section or abolish the said tax as he may deem expedient.

The explanation given in the explanatory note is:

> The new subsection 9 is designed to permit the rate of the transportation tax to be kept parallel to the corresponding tax in force in the United States, if deemed expedient.

If it is expedient that the tax in Canada be equated with that in the United States, surely we can have a more definite statement