

a period of sharply rising prices. I have said before, and I reiterate tonight, that I welcome the improvement in the position of Canadian corporations so essential to their continued expansion and the creation of new job opportunities. At the same time, I have pointed out on several occasions, both inside and outside the House, that there is a proper balance to be struck.

Given the level of profits Canadian corporations are enjoying, it is appropriate that as a temporary measure some additional tax revenue should be obtained from such corporations. Subject to certain important exceptions which I will outline in a moment, I am therefore proposing a temporary 10 per cent surtax on federal corporate income tax for the period from May 1, 1974, to April 30, 1975. The obligation of corporations to pay monthly instalments in respect of their tax liability will be adjusted to reflect the imposition of this surtax and the other measures introduced tonight.

This surtax will not apply to small business corporations. I am attempting to do all I can to encourage the growth of small business corporations which are largely owned and controlled by Canadians.

Because of the major changes I am proposing for the taxation of mining and petroleum corporations they also would be exempt from this temporary, one-year measure in respect of their production profits.

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In addition, the surtax will not apply to the profits from manufacturing and processing in Canada. I believe it is essential to maintain the reduction in the tax burden on that vitally important sector to enable it to strengthen its international competitive position. Canadian manufacturers and processors continue to be vulnerable to foreign competition as a result of the extensive use being made of the U.S. DISC tax provisions, the favourable tax treatment provided to manufacturers in other countries, and the intensified pressures they have faced from abroad more recently following the increase in our exchange rate.

The manufacturing and processing industries are not only a major source of employment directly, but they also provide a strong underpinning to the burgeoning service sector of our economy. The importance of bolstering manufacturing and processing is by no means confined to the central provinces where the greater proportion of those industries is now located. It is of equal or even greater importance to the Western and Atlantic Provinces, all of which are giving top priority to broadening the base of their economies through the large-scale development of secondary manufacturing and processing operations.

The measures which we introduced are doing exactly what they were intended to do. After years of slow growth, Canada's manufacturing and processing industries are rapidly expanding. Profits of manufacturers and processors have improved substantially, but they are being plowed back into heavy new capital investment to increase productive capacity, the supply of goods required by our expanding economy, and employment for our rapidly growing labour force. As I recalled earlier, manufacturing employment last year rose by 111,000, which was 8,000 more than the total increase in the previous six years combined. Manufacturing output rose by 8 per cent in

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1973, the largest increase since 1965. Manufacturing investment in new productive facilities rose by 19 per cent last year and this year is expected to grow by an extraordinary 28 per cent, the greatest increase in more than a decade.

Under these circumstances, and in view of the vulnerability of this sector to competition from abroad, I am convinced that it is in the national interest to maintain the reduced tax rate on manufacturing and processing profits which parliament adopted last year. Members will recall that in my last budget I indicated the companion measure implemented by order-in-council providing for a rapid two-year write-off of machinery and equipment acquired by this sector would be put in place for an initial period ending December 31, 1974. It is my intention to reassess this provision toward the end of this year when I have the benefit of the review now under way of the capital cost allowance structure and the further report on the impact of the tax measures on the manufacturing and processing companies.

Let me add a word, Mr. Speaker, about why I rejected proposals for an excess profits tax put forward by some members of the opposition. Hard, practical experience with such a system in the past has made it clear that it has major defects. In the first place, it is extremely difficult to define excess profits—as distinct from blatant profiteering—in a way that is equitable and workable. Any excess profits scheme is full of loopholes, with the result that some companies escape taxes otherwise payable. Secondly, imposition of a heavy tax on profits above some level that is defined as normal or reasonable, removes substantially the incentive of business to hold down costs and maintain or improve efficiency. The result is that instead of reducing inflationary pressures, as it is intended to do, an excess profits tax tends to increase those pressures. It is for these reasons that I rejected the idea of erecting a complex excess profits tax system and chose instead to propose a temporary, one-year surtax that is reasonable and administratively simple, but which still maintains the incentive for business to operate as efficiently as possible.

[Translation]

A further measure that I am proposing tonight will ensure that corporations not only pay their fair share of taxes, but also pay it promptly. I am advancing the timing of the final payment of a corporation's tax to the end of the second month rather than the third month after the end of the corporation's fiscal period. This change in tax payment date will not apply to a small business corporation.

The effect of all these measures in the corporate income tax field is to provide a significant increase in federal tax collections in 1974-75. In the absence of the changes affecting the petroleum and mining industries, the advancing of the final payment date would have yielded \$200 million. The measures affecting the resource industries would have yielded very little in 1974-75 unless the final payment date had been advanced, because in their case the payments would not have been received until the next fiscal year. But in combination with the advancing of the final payment date, I estimate that these measures will yield \$400 million. The proposals regarding financial institutions are estimated to yield \$40 million. The temporary