Mr. Ellis: Mr. Chairman, I suggest a change is being made. Obviously that is so. This clause is not included for no reason at all. To change the $750,000 rollup on the premise that some companies might take advantage of it seems unreasonable. Why in Heaven's name was it put there in the first place, if companies were not expected to take advantage of it? If the dividend rollup is allowed, there is no suggestion that those dividends can get into the hands of individuals without tax being paid. It merely rolls into the corporation. If the corporation puts those dividends in the hands of individual shareholders, of course they are required to pay taxes on them. If the department did not intend this provision to be used, then it should not have been put in there in the first place, because it misleads any competent company which is attempting to deal with this act.

Mr. Chrétien: On Friday afternoon I gave lengthy explanations, one in English and one in French. It was to ensure the $750,000 rule applies to small business. This clause is to prevent abuse by people who could form holding companies in order to get more profit at a lower rate than they are entitled to according to the act. Small businesses will have complete freedom to use this provision to the maximum. It was just an attempt to plug a possible loophole.

My explanation on Friday was rather technical. I suppose I could read it again, but I advise the hon. member to read it. Small businesses are entitled to have $150,000 of profit in a year at the low rate, up to an accumulated amount of $750,000. There is no problem with that. In theory, the people who invest up to 11 per cent of the shares of a corporation could get an accumulated amount up to $7.5 million at the low rate out of that company. We do not want people to use rules, established for the protection of small business, in order to pay lower rates than they should pay as big corporations.

Mr. Ellis: I read the explanations of the minister in both languages. I am sorry the minister does not understand the problem.

Mr. Chrétien: I do.

Mr. Ellis: I would not have used the word "technical" with regard to his explanation. I would have used the word "convoluted". It sounds to me as if the minister is attempting to ensure that small companies cannot get together and become big companies. It is tremendous to have various provisions for small businessmen, but I think this is an attempt to prevent small businesses from becoming big businesses. There is nothing wrong with big business.

Mr. Chrétien: Mr. Chairman, there is nothing wrong with big business, but it should not have the advantage of the same rate of taxes which small business has. That seems to be the only point of difference between the hon. member and myself. We have decided to give a preferential rate of tax to people in small business. When these people go from the small league into the big league, they are required to pay big league tax rather than small. Any company which has achieved major league status must abide by the rules and regulations affecting big companies and not small ones.

Mr. Ellis: I am at a loss to understand where a distinction between big and small companies was made in the original legislation. As I clearly recall, when this $750,000 roll-up to corporations was put into effect there was no restriction as to big or small business, it was for all business. Evidence to support that it was for all businesses lies in the fact that certain varying sized corporations have taken advantage of it. Now we are being told that if a business is too big it cannot take advantage of this. It seems to me that is clearly a discrimination against small businesses growing to be big. I cannot help but think that this particular clause is one that discriminates against and is prejudicial toward the growth of Canadian companies.

• (1552)

Mr. Chrétien: Mr. Chairman, the rule in respect of $750,000 is a rule which makes a distinction between the small and the big. When you have accumulated more than $750,000 in profit you have changed leagues. You then go to the rate that applies to big business. You can make $150,000 profit per year, up to an accumulative amount of $750,000. When you reach that level in five or ten years, you are taxed at the rate that applies to big corporations.

I think what the hon. member wants is a rate of taxation for all corporations, big or small. We have made a distinction for years between small and big. At the time you have accumulated $750,000 in profit you are no longer in the small league. At that point you are beginning to be a big guy and you have to take the responsibilities of the big guys, and that means you have to pay your share of taxes.

Mr. Ellis: Mr. Chairman, just to conclude very briefly, the minister made a point a moment ago about trying to save taxes because of the $750,000 limit which puts you into the big league. It seems to me there was a commission report just recently which agreed that perhaps some of those corporate taxes could have been reduced. I am not making a case for that right now. I want to ask the minister one final question. He makes the point that ten companies could in fact roll-up $7.5 million. If nine companies rolling up that much is something too big, and one is too small, is there an area in between of say, two, three or four companies with which the minister might agree?

Mr. Chrétien: The answer is no.

Mr. Huntington: Mr. Chairman, I have just a few questions on clause 32. I realize and understand the necessity of plugging a loophole with this clause, a loophole that would greatly extend abuses in respect of the $750,000 allowance. Is the minister aware that the amendment means that shareholders of connected corporations will have to reach an agreement in order that the 25 per cent allowance can apply on an on-going basis to the $750,000 limit? In other words, does he realize that if there is not a complete shareholder agreement that a