

*Taxation Reform*

a certain intellectual bankruptcy unusual even for this government. This proposal will be very serious for many small corporations.

The minister spoke about the number of unincorporated companies. I agree there are many of them, but on the other hand anyone engaging in small manufacturing or in any company which, like any organization, is likely to develop, is pretty well certain to become incorporated for reasons of limitation of liability, quite apart from any question of taxation.

The government should give an undertaking right away that it will not abolish the two level system until some appropriate alternative is found to help small businesses get under way and to help them compete as well as raise the money they need for expansion. This will also apply, of course, to farmers who are incorporated. It is quite certain that the minister is proposing to seriously reduce the cash flow of small corporations. The two level system must not be abolished until some offsetting provision is devised to try to overcome the bias of the capital market against the small corporation because the small businessman trying to expand cannot go to Wall Street or Bay Street to raise money. I suggest that the government proposal is stupid and we will oppose it as hard as we can until some way is devised to overcome it.

**Mr. Deputy Speaker:** Order, please. I see it is one o'clock and I do now leave the Chair until 2 p.m.

At one o'clock the house took recess.

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**AFTER RECESS**

The House resumed at 2 p.m.

**Mr. Stanfield:** Mr. Speaker, when I broke off this morning I was discussing the effect of the white paper proposals on the small corporation. As the minister himself stated, it is not so much a question of a tax differential in the long run. The shareholders of a small corporation that pays a 21 per cent rate are paying a substantially higher tax in the end, and the question really is whether it is sensible to impair the ability of a small corporation to compete, to remain modern and to expand in view of the difficulty that this kind of corporation encounters, generally speaking, in raising money. It does not seem to me to be sensible, Mr. Speaker. It is a definite discouragement and in my opinion will definitely

[Mr. Stanfield.]

make available a larger percentage of the Canadian market to the large corporation, and make it difficult for the small corporation to compete and develop.

I do not propose to say very much about the proposals regarding natural resource industries. No doubt others will discuss at some length the effect of the white paper proposals on these industries. I believe it is essential that our tax policies encourage the exploration for and development of our natural resources, and that we should be generally competitive with other countries whose natural resources are comparable with ours.

I would just like to say that with regard to the new incentives that are being substituted for the old, I believe that under the new ones there will be less encouragement for the development of resources, of mines, and of oil explorations in the more remote areas. I believe that this change may make it somewhat more difficult for the Minister of Regional Economic Development (Mr. Marchand) to achieve his purpose of reducing economic disparities.

I wish to spend some time this afternoon on the proposed changes relating to capital gains. I want to make it very clear at the outset that I do not oppose a capital gains tax in principle, but I serve notice now, Sir, that unless some important changes are made we will have to fight this proposal in its present form just as vigorously as we know how.

I would like to make four points in connection with the capital gains aspect of the proposals. First, in the present Canadian economic context it is absurd for any government in Canada to contemplate a capital gains tax at the rates proposed, or anything like them, that does not take account of inflation. Indeed I think the committee should consider very carefully the effect upon Canada of having a capital gains tax at rates substantially above those prevailing in the United States.

● (2:10 p.m.)

In recent years we have had an inflationary factor in our economy of some 4 per cent or 5 per cent. There seems to be very little likelihood of any easing in that trend, given the inability of the government to decide on an anti-inflationary policy and to stick with it, and the hapless and rather pathetic gestures of the Minister of Consumer Affairs and Higher Prices. Given the present situation, the government proposal to tax what is simply an inflationary gain, not a gain in real