

Income Tax Act

[Translation]

The Chairman: Order please. I would like to indicate to the minister that even if the hon. member for Edmonton West and all other members were ready to discuss the proposed amendment, this cannot be done since the amendment has not yet been accepted by the Chair nor been submitted to the committee. We would discuss clause 30 in its present format, but only, in my opinion, with unanimous consent. In view of the fact that consideration of clause 30 has reached a point where the Chair is not ready to hand down a decision on the amendment, I think that, but for unanimous consent, we cannot continue with consideration of this clause without a ruling on my part. I have asked hon. members to give me until Monday to hand down a decision. If the minister does not want me to delay my decision, I shall hand it down immediately and then he may perhaps debate the amendment if I accept it, otherwise we would have to proceed with another clause, as was suggested by hon. members.

Mr. Chrétien: Mr. Chairman, as we are intent on co-operating with the House and proceed as quickly as possible with consideration of the bill, we would be willing to consider clauses 31, 32, 33, 34 and 6, the other standing, as I did not foresee discussing it this afternoon. I would prefer to go on with clauses 31, 32, 33, 34 and some hon. members are ready to ask questions on that. I know that some members have important questions to raise, but since there is only 40 minutes left it might be better to go on to other less controversial clauses.

[English]

The Chairman: Is the committee agreeable that we stand clause 30 and proceed from clause 31 onward?

Some hon. Members: Agreed.

The Chairman: If clause 30 is stood by consent, we can then consider clause 31; but to return to clause 6 also would require unanimous consent, and there does not seem to be such consent. Does the committee consent to standing clause 30?

Some hon. Members: Agreed.

Clause 30 stood.

[Translation]

On clause 31—*Deduction from corporation tax*

Mr. Chrétien: Mr. Chairman, I should like to give the usual explanation concerning clause 31, and I quote:

Since January 1, 1978, the Northwest Territories have been collecting a 10 per cent tax on the taxable income which a corporation has earned during the year in the Northwest Territories. The purpose of the technical change to section 142(1) of the act would allow a corporation with a permanent base in the Northwest Territories to deduct from the federal tax which is otherwise payable an amount equal to 10 per cent of the taxable income it has earned during the year in the Northwest Territories. Therefore, there is no change in the total amount of the tax to be paid. Corporations with a permanent base in the Yukon will not be able to avail themselves of such a deduction because, unlike the Northwest Territories, the Yukon does not have its own tax system.

[Mr. Chrétien.]

● (1522)

[English]

Clause agreed to.

On clause 32—*Qualifying taxable dividends paid*

Mr. Chrétien: Mr. Chairman, clause 32 makes important amendments to the computation of the cumulative deduction account, the technical term for a corporation's post-1971 retained business income. This is an important computation since the special low rate of corporate tax for small businesses is only available if such retained income is \$750,000 or less.

The purpose of the amendment is to prevent an artificial increase in the \$750,000 ceiling. Through the creation of holding companies, certain corporate groups could be structured to effectively circumvent this ceiling in the \$750,000 total business limit and thereby take undue advantage of the small business deduction. This situation arose as a result of the exemption from part IV tax of dividends received by a corporation with an interest of more than 10 per cent in another private company.

Mr. Stevens: Mr. Chairman, I am glad that the Minister of State (Small Business) is in the House today. Perhaps we could hear from him as to how the government of which he is a member can be so utterly deceitful when dealing with the small business community in this country. I am referring to the fact that this proposed clause 32 imposes, a serious limitation, if it is carried, on the effect of the small business dividends position as far as the Income Tax Act is concerned. As the minister has indicated, the effect of what they intend to do in section 32 is to disqualify dividends which small business corporations may make in the future with respect to their cumulative \$750,000 over-all limit. The effect of this clause would be to limit the deductibility of dividends which go to other corporations that have invested in the small business concerned.

Perhaps I can put it this way, Mr. Chairman. Many small businesses in this country have been able to raise equity funds through other corporations, some of them even being venture capital corporations, which are willing to take the risk of putting new capital into a small business in anticipation of getting dividends back if the business makes a profit. The thrust of what the minister is proposing in clause 32 is to say that, in the event that that occurs and the dividend is paid by the small business corporation, not to an individual but to a corporation—and as I say, it may be a venture capital corporation—then that dividend shall not be given the same weight. In fact, it will be given no weight as far as the over-all cumulative \$750,000 of retained earnings is concerned, which the Income Tax Act allows a small business corporation to build up and still preserve their relatively low income tax.

That is why I am pleased that the Minister of State (Small Business) is here, because how this government in the one breath can be talking about doing such great things for small businesses, and in the other breath the Minister of Finance comes into the House today and through this section proposes