

Income Tax Act

Mr. Lambert: One case does occur to me where a good deal of hardship could result. I am thinking of two companies which are engaged in a related activity or business. One is in a loss position and the other is carrying on a profitable operation. The company which has the profitable operation is a substantial creditor of the business which is not so successful. In order to minimize its losses, the successful corporation buys out the business which is not successful, and is in the loss position. It is in a case such as this that the successful business would be prejudiced, because there is no distinction in the amendment on the basis of related businesses.

I will agree with the minister that there is some justification if a contracting company suddenly decides it is going to buy out a realty company or some such other extraneous operation solely to even out profits, but surely a legitimate case can be made for those within the same type of business. In the first place, it may be a substantial creditor of a debtor company. We have seen many businesses grow as a result of these mergers. If the minister wants names I can name him some very successful growth businesses that were built up because the one participant that had active, intelligent management and appropriate financing picked up a number of ancillary companies which were its debtors. In a very few years these were built up into very successful businesses. If the proposed provision had been in force such would not have been possible. May I say that these companies have contributed to economic development in certain sectors that are very well known to the minister's officials, though perhaps not to the minister.

Mr. Gordon: Mr. Chairman, I do not know the particular example about which the hon. member is talking, but I should like to try to put the matter this way, in more general terms. If one individual or one group controls two companies, one of which is making losses and the other is making profits, they are in a position that they can concentrate their activities on the company they now own which is making losses, and transfer the profitable business to it. They will not come under this section because control of the loss business will not have changed hands, so they can do this.

But if you are talking about two companies that are not related and one is profitable and the other is not profitable, what we are trying to stop, as I was saying, is the company which is making profits buying the losses of the other company and thus avoiding the payment of taxes on the profitable business, which they have been doing in the past. That

[Mr. Gordon.]

is what we are trying to stop and, of course, we think it should be stopped.

Mr. Lambert: I think the minister is using a yard wide broom to collect a foot of dust. Clause agreed to.

On clause 7.

Mr. Lambert: Mr. Chairman, would the minister give me an explanation as to the point I raised on second reading, why this has not been incorporated in the act as a permanent change? We have been carrying it forward from year to year, much to my mystification.

Mr. Gordon: I think the hon. member has a good point and if he will bear with me I will try to fix it up in the next budget.

Clause agreed to.

Clause 8 agreed to.

On clause 9—“Taxable corporation” defined.

Mr. Lambert: This point is somewhat more limited than the general objection I have raised with respect to the so-called Canadianization—I cannot call it national distinction—of a taxpayer. Why is it that here we are now getting the little toe in the door, in that there is a suggestion that if the shares of a corporation are listed on a Canadian exchange the corporation is now deemed to be a taxable corporation within section 38? Not too much has been said by the minister in this regard. I would appreciate it if he could tell us why there is this provision that the mere listing of shares on a Canadian exchange shall be deemed to be a partial fulfilment of the requirement of residency, one to which, incidentally, I do not necessarily adhere.

Mr. Gordon: Of course you have to do more than just list the shares. A very substantial part of the business has to be in Canada. This is a relieving amendment. As the sidenote indicates, a taxable corporation is defined and the definition is broadened so that it will include the kind of company described in paragraph (b), and to provide that the dividends from this kind of company shall be deemed to be from a source in Canada. There are companies which, for one reason or another, do not qualify but which do all their business in Canada and in which it is desirable to encourage Canadians to invest. They do not invest in these companies to a large extent because they cannot get the 20 per cent dividend tax credit unless the company is a Canadian corporation. The companies described in paragraph (b) are companies which, although not resident in Canada in the sense that their head offices