

Income Tax Act

which has its source in someone else's productive energies and abilities.

We have moved away from the white paper proposals, except that there is a vestige of integration left in the "gross up" in credit involved with regard to the elimination of the 20 per cent dividend tax credit. A mild form of integration is involved there. Thank goodness we did away with the nonsense of "closely held corporations", "widely held corporations" and the distinction between "Canadian corporation" and "foreign corporation".

Let us see what is before us now. I should like to deal with section 123, "Rate for corporations". My colleague from Vegreville has already spoken about this section. At the present time, corporate taxes on corporations are paid regardless of nationality of ownership. I suppose it might be said that there is neutrality. Those people who were the great exponents of neutrality between taxpayers should look at the present act. There is neutrality regardless of size or nationality of ownership and the tax rate is 21 per cent on the first \$35,000 of the taxpayer's income and 50 per cent on the excess.

• (4:20 p.m.)

As we know, and as is explained in the bill, the general rate of tax will be 50 per cent in 1972 and that will reduce by one percentage point per year until it reaches 46 per cent in 1976. There is to be a continuing general abatement of provincial taxes at 10 per cent and, to replace the 21 per cent, there is to be a much more restrictive reduction with regard to the general rate for small businesses. There are also some transitional provisions that appear in the interim transitional rules in section 51. We need not go into them at present. It must be noted that for corporations a rate has been suggested that includes the "standard" provincial rate and that there is a 10 per cent provincial abatement as under the present system. But the decrease to 1976 will reduce federal revenues only. So, we must see what the provinces will do. After all, at the last dominion-provincial conference of a fortnight ago, it was set down clearly that if provinces want to get additional revenues, there is a flexibility for them to tax. We know that in certain provinces the total corporate tax rate is much above 50 per cent. In Manitoba and Alberta there is a form of surcharge. Ontario is the only province that imposes the basic 50 per cent.

If one examines the flow through of ideas from section 123 to 124 and then looks at section 125 which is entitled, "Small business deduction", it will be seen how difficult it is to disagree with the interpretation placed on section 125 by the hon. member for Vegreville. Underlining what he said, I invite the parliamentary secretary to explain section 125, and particularly the last paragraph of section 125(1) which reads in part:

... the reference in this subsection to '25%' shall be read as a reference to '24%' for the 1973 taxation year ...

Let him explain the deductions. You see, the section says that there may be deducted from the tax otherwise payable under this part a certain amount. The tax payable under this part actually is 50 per cent, declining down to 46 per cent in 1976. So, there may be deducted from whatever figure appears under "tax otherwise payable" an amount equal to 25 per cent of the figure derived from the formula that is given. According to the last paragraph

[Mr. Lambert (Edmonton West).]

of subsection (1), in place of "25 per cent" you must read in subsequent years, 24 per cent, 23 per cent, 22 per cent and 21 per cent. Therefore, the deduction from the tax normally payable will be on a reducing basis. A company availing itself of the small business provision will be fixed with regard to the rate of tax. Let us look at the rate for 1974: it is 48 per cent. According to section 125, in 1974 the deduction shall be 23 per cent. Unless I am wrong, 48 less 23 leaves 25. Therefore, the rate for small business is forever fixed at 25 per cent. They will not get any additional advantage, as provided for in section 123. I may be wrong. The hon. member for Vegreville may be wrong. If we are, we invite the parliamentary secretary to show where we are wrong in interpreting this particular subsection. It seems to me that here there is a grave difficulty.

In discussing restrictions that are imposed under section 125 I really want to discuss the provisions of subsection 2(a) saying, "a corporation's 'business limit' for a taxation year is \$50,000, ...". I should have liked to see a platform or a plateau in a two-tier system introduced which would have brought the former limit of \$35,000 up to \$50,000. That is the spirit I should have liked to have seen on the part of the government in an attempt to comply with the realities of inflation. It would have been so simple, so very simple, to bump up the \$35,000 figure to \$50,000. Business would have understood just what was being done and the government would have acknowledged the inflationary situation, as it has done in the past, by increasing the limits to conform with the realities. That would have been the fundamental reason for that action. Individuals are now enjoying much higher incomes; they are not real incomes but much higher dollar incomes bearing higher tax rates.

Why will not the government give businesses the benefit of the type of thinking that has been extended to individuals. But, no, we are to introduce a very complicated system and there is a limit of \$50,000 within one year. Once the accumulation of taxable income reaches \$400,000, the small business provisions or privileges will no longer apply to that business. Why, at \$50,000 a year, under inflated dollar values, it will take a business about eight years to accumulate \$400,000 of inflated dollar income. I invite the parliamentary secretary, in whose constituency there are many small businesses and who knows something of business, he having been in business, to comment on this. Under inflation you can reach the figure of \$400,000 just as quickly as you could have reached \$275,000 under the present provisions. I think we all recognize that that would have been quite unfair. If such a level was unfair then, why should it not be unfair now? It seems to me that business will not thank the government for introducing these restrictions.

Furthermore, if companies are in a group, if they are associated with one another in a taxation year, and they have filed a certain type of agreement, the minister must consider them all as being part of a group and the small business provision does not apply to them. There must be some relation between this provision and old section 138. I will look. I see, having looked, that this is not like old section 138(a) of questionable parentage under which the minister was given great discretionary powers to determine who were associated companies. This is an indica-