

companies might perhaps be related to an entirely different kind of business. For example, you might assist in the establishment of an electric light, heat and power company to serve your own community, and such company would not be allowed the benefit of the 10 per cent tax but would have to pay at a higher rate. If there is any explanation of that I would like to have it.

The CHAIRMAN: I think your remarks, Senator McLean, are directed against the policy rather than the mechanics of the act. As Mr. Sinclair, Parliamentary Assistant to the Minister of Finance, is here he may be the appropriate one to make some comment on your statement.

Mr. JAMES SINCLAIR (Parliamentary Assistant to the Minister of Finance): Mr. Chairman, the intention of the section is not so much to help small businesses as to help the small businessman who is in the less than \$10,000 class and has only one business. If this had been applied to all small businesses a great injustice could have been worked. Take, for example, a man who is the controlling owner of four companies, each around the \$10,000 profit level. Say he owns a half-interest in each. If the 10 per cent and 33 per cent rate was not applied to each company, all his profits would be taxed at 10 per cent. In other words, with an income of \$20,000 from those four companies his business profit tax would be only 10 per cent, whereas his neighbour who owned only one company making the same profit would be taxed at 10 and 33 per cent. The intent here was to help the little businessman, the owner of one small business, who finds the old 30 per cent rate too heavy. In the debate in the House of Commons points such as Senator McLean has made were raised, and Mr. Abbott said that while the intent was to help those individuals who probably constitute 90 per cent of the small business owners, there was no desire to inflict an injustice on minority holders in other companies. He pointed out that the effect of this would not actually be reflected in tax returns until next year, and as this is an entirely new principle so far as corporation taxation is concerned he would like to make a further review of it over the next three or four months—not a review of the principle, because the government thinks this is a good principle, but a review of the situation such as Senator McLean has described.

Hon. Mr. McLEAN: Look at the position of any Canadian company which is trying to compete with an American company that has a subsidiary in Canada. We do not know who the partners of the American subsidiary are, but the company will get off with a 10 per cent tax. Our companies cannot possibly compete under these conditions.

Dr. EATON: But when the American company's profits are moved to the United States, they will be taxed 38 per cent, as compared with the Canadian company's tax of 33 per cent.

Hon. Mr. McLEAN: But the American companies are allowed to write off any taxes they pay in Canada, and we lose the difference.

Dr. EATON: The Canadian treasury loses the difference.

Hon. Mr. McLEAN: And the American tax rate might be cut to 25 per cent next year, so far as we know.

Dr. EATON: I am only pointing out the present situation.

Hon. Mr. McLEAN: I can point to cases where cold-storage companies have been organized for the benefit of a local community, and the cold-storage business is entirely different from that of the parent company. And I know of cases where light, heat and power companies have been organized and carry on entirely apart from the parent company's line of business. The object in these cases is more or less philanthropic, to help the local community. Then take the case of a family corporation which, when the main partner dies, seeks