

*Income Tax Act*

when they changed the tax laws, thus increasing taxation, they must have been wrong. I do not criticize them for this reduction as I think it was necessary and I am sure every member of this House hopes and expects that some benefit will result.

• (5:30 p.m.)

I turn now to the 20 per cent dividend tax credit that is being replaced by 33 1/3 per cent. I do not propose to go into that matter in detail because it is rather complicated. I cannot follow the argument that to increase the dividend tax credit will not stimulate the ownership of companies by Canadians. I cannot see how it could fail to have that effect.

I should like to speak now about small corporations with annual incomes of up to \$50,000. Under the present act the rate is 21 per cent on income up to \$35,000, and under the proposed legislation it starts at 25 per cent but the amount on which that would apply is raised to \$50,000. As an alternative to the present lower rate of corporate tax on the first \$35,000 of income the government has introduced a small business credit to be available only to Canadian-controlled private corporations. This restriction excludes from the eligible group any private corporation controlled in any manner whatsoever by non-resident persons or by some combination of non-resident persons and Canadian public corporations.

The credit is applied to reduce the federal corporate tax and is computed initially at 25 per cent on no more than \$50,000 of business income of each taxation year. The rate of credit is to be decreased concurrently with the decrease in the general corporate tax rate to 24 per cent in 1973, and by a further one percentage point per year until it reaches 21 per cent in 1976. Corporations may continue to claim the credit until such time as they have accumulated and retained \$400,000 of earnings.

Since the credit is to be granted at the corporate level it has been found necessary to retain the present detailed associated company provisions, with minor modifications, and the present provision for ministerial discretion in order to restrict the amount of benefits which might be claimed. Both the \$50,000 annual limit and the \$400,000 retention limit must be allocated annually amongst companies which form an associated group.

I believe that a degree of foreign ownership is beneficial. I believe if you have participation in the management of a company and it brings with it the research it has established as being desirable, and the experience of its operation, it tends to distribute more jobs. I think Canadians should try to emulate this sort of thing and learn from it. Foreign ownership does not necessarily mean ownership within the United States of America. In my province there are companies controlled by the British and some by the French, and in every case they bring ideas to the country. To say that all investment of foreigners should be kept out is ridiculous and I do not subscribe to any such doctrine.

To my certain knowledge there are companies that have been doing business in Canada for 25, 30 or perhaps even 50 years and have acted as good corporate citizens. If they have established a reputation and have conducted their business in accordance with the laws of Canada, then to say that they cannot receive a particular tax benefit seems

to me to be rank discrimination. I repeat, these companies have established a reputation for living within the laws of Canada, being good, law-abiding citizens, paying their people well and abiding by the labour laws of the country.

I want also to speak about the total business limit of \$400,000. That is what they will be allowed—

**Mr. Lambert (Edmonton West):** That is taxable income.

**Mr. Flemming:** That is right. What will probably happen is that they will be able to use the benefits of the lower tax rate for expansion and to make themselves more efficient, and at the end of the period they will be prevented from selling it even to one of those good corporate companies which I mentioned earlier. By being obliged to retain it, they will not have the liquid funds to carry on because they have been put back into equipment and general improvements in the plant. It seems to me that some consideration might be given to the question of corporate taxation as it applies to companies with a long record of satisfactory performance in accordance with the laws of this country.

If the government in its wisdom, or lack of it, decides that in future things will be changed and there will be no foreign ownership of business in Canada, that is their right. But they should at least present it to this Parliament and the people of Canada for approval. It is my opinion that the people of Canada will not approve it. It is my opinion that the government will go out of business on that issue. If they want to do it in the future, possibly there is some justification. But I submit, Mr. Chairman, that we cannot say to corporate citizens who have had satisfactory business relations and who have contributed to the building of flourishing communities, "You are no longer welcome in Canada and you must get out". I do not think the people will support that kind of attitude and will say to the government, "You are the ones who should get out."

• (5:40 p.m.)

That is my contribution relative to the small business provision. I know something about small business. I know something about frozen assets, about small businesses not having ample funds and not having a great deal of liquidity. Nevertheless, small business is helped a good deal by government taxation policies. Compared with taxes which large corporations pay, the tax rates of small businesses are somewhat favourable. The government reduced corporate taxes by 7 per cent in 1971 with the idea of stimulating business. I believe in that policy and I hope, as I am sure we all do, that it will bring benefits and improve employment and the general economic situation of the country.

We must bear in mind that developments taking place from day to day may affect some of the things that governments can do. I do not pretend to be an expert on oil and gas. The other day the National Energy Board decided that we did not have a sufficient surplus of natural gas for additional export and that we should not export more than had already been approved. I am sure we all recognize that the National Energy Board comprises a group of men who are anxious to do a good job and perform a worth-while service for the country.