

Income Tax Act

way there could be at least some public debate of the proposals which these main associations wish to put forward well in advance of the time when budget decisions are made, and I propose to write to all the principal organizations to this general effect.

A lot has been said during the course of this debate about designated areas, and I would again, with respect, refer hon. members to the speech made the other day by the hon. member for Northumberland. I do not think anyone has suggested that the formula proposed is perfect. A number of criticisms of it have been made. I think it should be remembered, as has been said, that the formula will be subject to change and modification. On the other hand, I suggest to hon. members that if we wait until we get the perfect solution to this or many of the other proposals included in the bill it will be a long, long time before we accomplish anything; and with the greatest respect I suggest that we will make more progress if we proceed with the measures which have been proposed, even though some of them may not be perfect. Then, as we discover through experience their defects, if there are defects, we will proceed to amend them and improve them.

I do not think it would be helpful at this stage of the debate to deal with all the questions which have been raised on the detailed items included in the bill; I think we will make more progress perhaps if we do that when we come to the relevant clauses. However, I should like to deal with a number of the points raised by the hon. member for Edmonton West in his speech the other day, some of which he made before, during the debate at the resolution stage. The hon. member raised the question of the desirability in certain of these clauses to place the emphasis on residence rather than citizenship. This arises in connection with clause 28 which deals with Canadian ownership and control. The hon. member's remarks concern the rule which refers to ownership of 25 per cent or more of the shares of a corporation by individual residents in Canada and to the rule that 25 per cent of the directors must be resident in Canada. The Canadian Income Tax Act taxes on the basis of residence. This concept is well established and understood. To introduce a test based on citizenship would, I suggest, introduce a completely new concept into the Income Tax Act. Moreover, such a rule would require corporations wishing to qualify as Canadian under the 25 per cent share ownership test to inquire into the citizenship status of—perhaps the hon. member did not mean of their shareholders, but at least of their directors.

[Mr. Gordon.]

I have some reservations about this proposal. Residents of Canada have to have homes here and are part of the Canadian community. There is no guarantee that a citizen in the technical sense would be less likely than a resident who is not a citizen to participate in the arrangements based on trustees and nominees of owners to which the hon. member referred. I think in particular when I say this of many of the new Canadians who, for one reason or another, are not yet Canadian citizens in the legal sense but who nevertheless are making a great contribution to this country. I do not think anyone would wish that they be excluded from consideration in these matters.

The next point that the hon. member for Edmonton West raised had to do with associated companies. I think he has raised the same point on other occasions. He suggests that the rules concerning association of companies discourage the successful businessman who controls a company from investing in new companies, because the company he owns and the new companies would then become associated. This association would come about only if the businessman takes a controlling interest in the shares of the new company, which the hon. member suggests is usually necessary. I suggest that the hon. member for Edmonton West is arguing that if a successful businessman puts his money into more than one company, all the companies he controls should enjoy the lower rate on the first \$35,000 of taxable income. I suggest that acceptance of this proposal would lead to allowing all companies, or a great many companies, to take the lower rate on the first \$35,000 whether associated or not. The lower rate on the first \$35,000 of company income was intended to help small businessmen. It is not intended to provide a tax concession to businessmen who hold a majority interest in a number of companies.

The hon. member has argued that the minority shareholders in the associated company are penalized by reason of the association rule. But this is the result of giving control to a person who controls other companies and who chooses to allot the benefit of a lower rate to a more favoured company. The amendment in the bill does not change the principle or intent of the law concerning companies; it is only intended to strengthen the present rule, which has existed for many years, that only one of a group of associated companies shall be allowed the benefit of the lower rate on the first \$35,000 of taxable income.

The next point raised by the hon. member was in connection with the ownership of assets for purposes of the new section 71A.