

Income War Tax Act

on it if my hon. friend wishes. I said I proposed to introduce certain amendments to the Income War Tax Act of a somewhat technical nature affecting private companies. I said that although not many taxpayers would be affected by the amendment, I thought that those who would be concerned should be informed. I now quote from the statement:

The purpose of the amendment is to prevent legal avoidance of tax on distributions of accumulated surpluses of private companies electing to pay tax under part XVIII of the act in cases where persons have purchased their shares from corporate owners since December 31, 1944. Where the shares of the private company are acquired by the individual on or after January 1, 1947, the dividend paid out of accumulated surplus will be taxable in the hands of the individual at the rates that would have been paid by the private company in respect of the surplus represented by the shares in question if the present owner had been the actual owner on December 31, 1944. If the shares were purchased in the calendar years 1945 or 1946 the dividend will be taxable when received by the individual but at a rate of 15 per cent.

The reason for that was this. As my hon. friend will appreciate, dividends from one Canadian corporation to another are exempt from tax. Take a private company which had individual shareholders and corporation shareholders. It could elect and could qualify as a private company under this section. It elects to be taxed on the basis of part XVIII. The tax is calculated at the appropriate rate as income of the company on the proportion of the income of the company or proportion of the surplus of the company attributable to individual shareholders; but since the corporate shareholder would pay no tax on the portion of the income which was going to him, the total tax paid by the private company to which I referred would be less because of having corporate shareholders. Then, step No. 2. If an individual acquired the shares of that corporate shareholder or private company he could get the dividend from the private company tax free. It is to plug that hole that this amendment is introduced.

Mr. FLEMING: I thank the minister for his statement. The committee appreciates that there is a fairness about the proposal, but the feature which troubles me, and which I think has not been fully clarified by the minister is this. Simply because the warning was given in January of this year it is treated as a ground for imposing the tax now. But there may be people who acquired their shares prior to the date of the warning, and acquired them with knowledge, presumably, of the fact that the shares at that time were free of this particular type of tax. The tax is now being extended in 1947 although the individual sought to be taxed now may have purchased

[Mr. Abbott.]

them prior to the date of the warning. No doubt in most cases he purchased them prior to the date of the warning, understanding, and being entitled then to understand, that the shares were free of tax on the proportion of undistributed surplus in the hands of the company. It looks to me like a retroactive tax, which is not a desirable kind of tax.

Mr. ABBOTT: One answer to my hon. friend is this, and that is why we made the difference between the two rates which were imposed here; the 15 per cent rate, which is the minimum under the schedule in section 92, applies to such cases as took place in 1945 or 1946. In the future the regular rates which are set out in the schedule apply.

Mr. FLEMING: Would it not be better to make it apply from this point on instead of going back?

Mr. ABBOTT: No; I really feel that that would be unjustified.

Mr. JACKMAN: I do not quite understand the minister's reasoning where the tax avoidance is if the corporation gets the distribution from the private company, it being a shareholder. When it receives the income it will go into the earned surplus of the receiving corporation, and then when it is paid out, as it must be some time if anyone is to benefit from it, the shareholders must ultimately pay the tax.

Mr. ABBOTT: I perhaps was not quite clear in my explanation. What happens is this. The individual buys the shares from corporation No. 2 before the dividend is paid out. That is where I was incomplete in my explanation. An individual buys shares of a private company from this other corporation before the dividend is paid out, and he receives the dividend tax free.

Section agreed to.

On section 15—Paragraph A of first schedule.

Mr. JACKMAN: There is nothing new to it in principle except what was said in the budget debate; but as the minister has said, and everyone in Canada believes, the rates of advance on taxation are much too quick, and this schedule is must too fast in its rate of advancement; after \$1,500 a man pays an extra 2 per cent, I think it is, upon every \$100, so by the time he reaches a taxable income of \$2,000 he will be in the 20 per cent bracket. I merely wish to go on record again as saying I think that is too high a rate of