

*Income Tax Act*

These corporations, by paying a fee of \$100 and proving qualification in other respects, completely escape taxation under the Income Tax Act. While this provision goes back actually to 1918, to the very early days of income tax, it was introduced at a time when the position of corporations doing business outside of Canada was very different from the position that is accorded to those corporations today.

This provision of the act allowing corporations to become foreign business corporations dates from a time when there was no provision for a credit for foreign taxes nor any provision for tax freedom on dividends from foreign subsidiaries. Canadian corporations may now obtain a credit for taxes imposed by foreign governments on their operations abroad, or if they own or control subsidiaries abroad to the extent of owning at least 25 per cent of the shares they may bring dividends from those subsidiaries back to Canada free of Canadian tax. In view of these provisions there seems to be no longer any need for Canadian corporations to use the foreign business corporation classification in order to carry on operations abroad.

I do not wish to detain the house any longer than is strictly necessary. In this respect I can, if the house wishes, go into this subject at greater length but I hope that will not be necessary. There is an abundance of evidence that the circumstances which called this type of exemption into being 40 years ago no longer obtain. I remind the committee we are not taking anything away in clause 19 of this bill from any corporation that had qualified up to the night the budget was brought in or was in a position then to qualify, but the effect of the amendment was to close this class so that no more corporations could, under present circumstances, acquire rights under it.

I said at that time that the closing of this class would give us an opportunity to go into this subject at greater length in our studies to determine what value, if any, there was to Canada in allowing corporations which have no assets in Canada or property in Canada to enjoy this particular form of tax exemption. I will therefore not dwell on that subject unless hon. members so choose. But I come back to the principle which I submit is well recognized in this house and which, for my part, I am glad to have the opportunity to ask the house to reassert on this occasion. It is a proposition that is described by Bourinot in his fourth edition at page 285, in these words:

—the Senate is now practically guided by the same principle which obtains with the House of Lords and acquiesces in all those measures of taxation and supply which the majority in the House

[Mr. Fleming (Eglinton).]

of Commons have sent up for their assent as a co-ordinate branch of the legislature.

May I simply close my remarks on this aspect of the matter by recalling the words of Sir Wilfrid Laurier in this house in a similar situation on September 7, 1917. This is the way in which Sir Wilfrid put it, and I am sure the house will not question the assertion of Sir Wilfrid on a constitutional question. He said this:

It is a well-known principle that the upper chamber can reject any bill, even though it deals with financial matters, that has been passed by this house. The Senate can reject the supply bill; it can reject a bill adopted by the committee of ways and means of this house, but it cannot amend such bills. This principle has been affirmed over and over again.

On this occasion I am asking that the house reaffirm the principle. I am therefore moving, Mr. Speaker, the following motion, seconded by my colleague the Minister of Trade and Commerce:

That a message be sent to the Senate to acquaint Their Honours that this house agrees to the first amendment made by the Senate to Bill C-48, an act to amend the Income Tax Act, being an amendment to clause 18 of the said bill, but disagrees with the second amendment, whereby the Senate would strike out clause 19 of the said bill, for the following reasons:—

1. The outright exemption of foreign business corporations from tax under the said act should not be extended to corporations which have not qualified or cannot qualify as foreign business corporations in accordance with the provisions of the said clause 19.

2. The class of tax-exempt foreign business corporations under section 71 of the said act should be closed pending a review of the position of such corporations and the value to Canada of permitting more corporations to qualify as such.

3. The said amendment of the Senate infringes the sole and undoubted right of the Commons to impose taxation; it alters the application of taxes and interferes with the public revenue.

**Mr. Speaker:** Before the Leader of the Opposition speaks, may I say this. I take it that the Minister of Finance considers that the proposed amendment does not now infringe on standing order 63 by reason of the fact that the remaining amendment does not alter any of the conditions, etc., of the grants involved.

**Mr. Fleming (Eglinton):** Exactly so, Mr. Speaker.

**Hon. L. B. Pearson (Leader of the Opposition):** Mr. Speaker, when the government submitted to the house this Senate amendment the other day, the position we took then on this side with regard to the procedure was the position which has been put forward by the minister today and which has been embodied in this motion. We are therefore naturally gratified that the government has taken this position and we will support it. I should like to add, however,