

(c) the ability to accumulate income, especially dividends, in private corporations at rates lower, even much lower, than personal tax rates - and eventually realize on it with relatively little or no tax

(d) the low rate of tax on the first \$35,000 of corporate income applicable to all corporations whether or not there was economic justification in particular types of cases - extensively used for the accumulation of capital within small corporations, frequently in groups of corporations associated, in fact if not in law

correction of these major faults in the old system was bound to impinge upon savings, and on the retention and channels of investment of savings. "

Changes have already been made in respect to life insurance and estate and gift taxation. It is now proposed to tax capital gains, both realized and unrealized, and to increase the income tax rates for many "savers". The combined effect is that individuals are offered little encouragement to accumulate capital through deferring consumption.

It is also our view that there would be a reduction in corporate savings due to such factors as -

- the elimination of the lower corporate rate of tax,
- the change in the treatment of inter-corporate dividends,
- the modifications affecting the resource industries,
- and increased dividend payouts to avoid staledating under the integration proposals.

With respect to the last-mentioned factor, the Government's view is that the reduction in corporate savings would be offset