APPENDIX "A"

TAXATION

(a) THE INCOME TAX ACT

Corporation and Personal Income Taxes:

1. It is recommended that corporation and personal income taxes be reduced materially.

Manufacturing industry in Canada is taxed at very high rates. The income of a manufacturing corporation is subject to taxation twice: first as income of the corporation and secondly when the profits remaining after the tax is paid are received by shareholders in the form of dividends. The present top corporation income tax rate is 47 per cent of profits, which with addition of the 3 per cent Old Age Security Tax makes up a total top rate of 50 per cent. In addition, corporations which carry on business in Ontario or Quebec are required to pay to the province or provinces concerned an extra tax of 2 per cent on profits which are earned therein.

When the income of the corporation after the payment of the tax is distributed in dividends to the shareholder, income tax is payable by the shareholder on the dividends he receives along with the rest of his taxable income. Dividends, as part of the income of an individual are taxed at graduated rates commencing at 11 per cent and going as high as 80 per cent, subject, however, to a dividend tax credit of 20 per cent of the amount of dividends received. Corporation income is therefore subject to double taxation relieved only by the shareholders' dividend tax credit which bears small relationship to the top corporation tax rate of 50 or 52 per cent.

The Association is of the opinion that the present rate structure and level of personal income tax rates are too high for the good of our economy. The increase in the personal tax rates during the last twenty years has resulted in a highly progressive rate structure which has worked a real hardship on many taxpayers, particularly those in the middle and higher income tax brackets. Such a rate structure has a definite tendency to discourage initiative. Within industry in these brackets are executives, managers, engineers, top salesmen, those employed in all levels of scientific and industrial research, technicians and many other skilled employees in companies whose productive efforts should be encouraged instead of being discouraged. The Association feels that the progressive increase in tax rates brought about in 1959 is harmful to the development of initiative, results in increased demands for higher wages and salaries and should be removed at the first opportunity. The present combined rate structure of corporation and personal income taxes, in spite of measures which have been taken, remains a serious obstacle to the continued existence and development of smaller industries owned by individuals and families.

Additional Capital Cost Allowances:

2. It is recommended that accelerated capital cost allowances (1) for industries in areas where there is continued unemployment, (2) to aid the development of new products from processing operations not hitherto carried on in Canada and (3) to encourage the production of new types of goods, which were announced on December 20, 1960 by the Minister of Finance, should be increased at least to the level of the accelerated capital cost allowances put into effect in 1951 at the time of the Korean War, under which it was possible in most cases to obtain a complete write-off in four years.

The Minister of Finance in his Budget Speech of December 20, 1960, announced that accelerated capital cost allowances would be provided (1)