

profits tax is very much larger than the amount charged on a business with a capitalization twice as large. I instanced the case of a business with a capital of \$1,000,000, where a profit of 50 per cent, or \$500,000, was made. The owner of that business would be required to pay to the Government, under the new proposals \$185,000, while if the capital employed was only \$500,000 the tax would be very much greater. I do not know whether I make myself perfectly clear, but my point is this: where a business with a capital of \$1,000,000 is being carried on and a profit of \$500,000 is made, the Government takes an excess profits tax of \$185,000, whereas if the capital employed is only \$500,000, and \$500,000 profit is made, the amount to be paid to the Government under the new proposals would be about \$250,000. So that we have this anomalous situation, that where two companies both make a profit of \$500,000 each, the one which has a capital of \$500,000 pays into the coffers of the Government \$250,000 and the other with a capital of \$1,000,000 pays only \$185,000. I think that is a glaring anomaly which the minister should carefully consider with a view to affording some relief.

Sir HENRY DRAYTON: The hon. member has pointed out one of the anomalies and direct injustices of all these excess profits taxes. But they are all formed on the same basis. They are not formed with any regard to the amount of effort or anything else that is required in order to obtain a given result. In all taxes of this kind, the one consideration is the amount of money actually employed, and there is no doubt that where you have an active, energetic management which, by extra work and superior business acumen, turns over its capital four or five times a year as compared with another that turns its capital over only once or twice a year, the same amount of capital is utilized to a far greater extent and with greater advantage to the country; and while such a management must be penalized under any system, there is this to be said, that the anomaly is now far less marked than formerly.

Mr. JACOBS: May I point out to the minister a concrete case which I have in mind, it having been brought to my attention. A business in Montreal has a capital of \$500,000. It borrows from the bank another \$500,000, so that it is working on a million dollars. It makes on this million dollars a profit of \$500,000. Fifty per cent of that is paid into the Government's coffers, that is to say, \$250,000. Another busi-

ness does not require to borrow a cent from the bank. It has a million dollars of its own, and because it has not to borrow from the bank it merely pays into the treasury \$185,000. Why should a man who has only half a million dollars and borrows a like sum from the bank have to pay \$65,000 more than the man who happens to have a million dollars of his own money invested. This is a glaring injustice. It is not right and it cannot be justified in any way by the Government, so far as I can see. Why not make both pay \$250,000? I am not urging for a moment that the man who has to pay \$250,000 should not pay it; but why should a man who has a million dollars of his own and is not under any necessity to borrow from the bank not pay \$250,000 the same as the other man?

Sir HENRY DRAYTON: That is another illustration of the difficulty of working out anything like an absolutely fair basis. There is, however, a real difference between the two cases. In the first instance the company have collected and invested permanently their own money; in the other case they are able to get hold of only half the amount they require to look after their business, and therefore in regard to the other half they have to make their business a direct charge to that extent upon the public credits afforded by the banks of the country. Loans are always changing and fluctuating. They do not represent money really invested in the business and therefore are not capital. Let me point out, however, that the business such as my hon. friend speaks of is protected to this extent, that the full amount of the interest which they pay is deducted from their profit, being looked upon as an expense. If they pay 6 or 7 per cent interest it is deducted.

Mr. JACOBS: That is to say, if they borrow \$500,000 from the bank, \$35,000 interest is deducted before a penny is paid to the Government. But what about the \$250,000 of actual net profit made irrespective of the \$35,000. My hon. friend does not seem to realize that the man who is able to get half a million dollars from the bank in these days of stress and strain deserves some consideration at the hands of the Government. He requires to be a clever man to do that, and after he has succeeded in doing it and has \$500,000 in his possession, he is mulcted to the extent of \$250,000. Surely the Government does not persist in this course, because to my mind it is one of the most glaring injustices of the

[Mr. Jacobs.]