

4.19 CORPORATIONS

White Paper Proposal

One set of rules for closely held corporations and another for widely held.

Recommendation

Our general recommendations in respect of capital gains and integration would, we believe, remove the main tax distinctions between the two types of corporation to which objections have been voiced. Our recommendation for the continuation of the distinction results mainly from the intention to permit the benefits of full integration to apply to the first \$50,000 of taxable income of certain closely held corporations.

4.20-4.23—CLOSELY HELD CORPORATIONS

White Paper Proposals

1. Election to be taxed as a partnership if:
 - (a) all shareholders sign the election;
 - (b) it is clear what portion of the profits each shareholder will receive (which would usually mean that there is only one class of shares);
 - (c) all shareholders are individuals resident in Canada or corporations incorporated in Canada;
 - (d) any Canadian corporations holding shares have the same fiscal year-end as the corporation.
2. Other closely held corporations taxed at 50%, but when profits distributed, Canadian shareholders would receive credit for full corporation tax paid. This would apply to both cash and stock dividends.
3. For the shareholder to receive the credit, corporation would have to pay out dividends within 2½ years from end of corporation's taxation year.

Comments and Recommendations

1. The Committee believes that the partnership option is a useful device, and we should like to see it extended as far as is consistent with our general recommendation for half integration. We appreciate that our other recommendations on integration may require the proposal to be abandoned as far as corporation-individual elections are concerned, except perhaps for small closely held corporations with income under \$50,000, for which full integration would be available, since the use of the option is tantamount to full integration.

2. As already stated in our general recommendations, the Committee recommends that full integration be permitted up to \$50,000 of taxable income annually for Canadian closely held corporations (or an associated group of closely held Canadian corporations that does not include a widely held corporation) controlled by Canadian residents.