

I do not think we can ask the Canadian people to put up with a system that is not a progressive one, to put up with the system in which those who are very well to do and those who have very large incomes are able, because of devices in the act not available to the person of ordinary means, to reduce their incomes unduly. We want to encourage saving. We want to encourage risk taking, encourage people to build up businesses and to develop a stake in Canadian society, but at the same time to maintain as a fundamental principle a progressive tax system, one in which the more you earn the more taxes you will pay.

Having said that, I would like now to look over a few very specific incentives. I am not going to touch on the ones that have been announced in the last few days in the House that directly affect small business—the exemption of small manufacturing enterprises from the federal sales tax, the right to pass through without taxation the capital gain on a small family business, an incentive that matches the incentive that has existed for family farms being passed on from one generation to another. I am not going to refer to the proposals to encourage the formation of venture capital by further incentives. These will be brought forward and there will be legislation in due course, and we can take a look at them then.

I would like to talk about some of the existing incentives which are presently in the Income Tax Act. The first one I would like to look at is the general small business tax rate. I wonder if it is adequately recognized that the small businessman earning the same income as, for example, a doctor or a lawyer pays substantially less tax on it. This is also the case when comparing the small businessman to the working person who works for a firm and draws a salary. Small business, on the first \$150,000 a year of income for a number of years up to a maximum of \$750,000 in earnings, pays an income tax rate of about 25 per cent. I say “about” because the rate can vary from province to province, but it is approximately 25 per cent on the first \$150,000 of income. That is half the rate that large businesses with over \$150,000 of income pay on their income tax.

● (2012)

I should note that in the United States the benefit of a rate of about 25 per cent applies only to the first \$50,000 of income. In Canada, therefore, small business gets three times the break on a tax rate of their United States counterpart.

If a business is incorporated it has the benefit of the 50 per cent tax credit in paying through the dividends to stockholders. I did a calculation out of the income tax rates grossing up a dividend. It looks to me as if a doctor earning \$30,000 will actually pay \$5,000 more in income tax than a small businessman who takes full advantage of earnings in his corporation and passes through to himself through the tax credit with the grossing up of the dividend. That \$5,000 difference, which is an extra incentive in small business, is not very often discussed in this country. I think it is time that the availability of that tax incentive to small business was acknowledged.

Income Tax Act

I noted another incentive which has nothing to do with small business but rather with very big business. It is a particular incentive to encourage the development of northern energy resources. A prospectus was issued recently by Dome Petroleum to raise \$62 million for exploration work in the Beaufort Sea. The only fair way of characterizing the extremely generous incentive provided in that proposal is that it represents a transfer of funds from the public sector to the private sector.

Depending on a person's income and the province he lives in, it is possible for someone in the right tax situation, in the right province, to make that investment not only without having to put up any money of his own, but to come out ahead.

The incentive provided is very generous. For example, if an individual in Newfoundland buys a \$10,400 participation, which is a mixture of common and preferred shares, in this project, that money can be deducted from his income tax in the year of investment. It is entirely paid for by a transfer of taxes that he would have paid to the federal and provincial governments to the Dome Petroleum Company, in return for which he gets the shares. Not only does the tax pay 100 per cent of his investment, but by making the \$10,400 investment he actually has his taxes reduced by more than \$10,400. The individual in Newfoundland can make that \$10,400 investment and end up with his tax being reduced by \$924 more than the \$10,400 he needs to make that investment. That is the benefit and the result of the very generous exploration allowances provided in the Income Tax Act.

In Prince Edward Island, in addition to getting all of the investment made out of taxes, you get a refund of \$350. In Nova Scotia the refund is \$525, in New Brunswick \$625. Ironically, in Alberta it costs the investor something to make that \$10,400 investment. It is not entirely paid by taxes but still it costs only \$474. Saskatchewan is similar to Newfoundland; by buying one of these Dome Petroleum participation units your income tax is reduced by the amount of the investment plus an additional \$945.

I will conclude, Mr. Speaker, with one other reference to the impact of the tax credit which is available on inter-corporate payment of dividends. I have noted in the banking community a growing trend to establish relationships with customers in such a way that in cases of very large borrowings they can take advantage of the tax-free nature of an intercompany dividend. Instead of collecting interest from the company to whom they would otherwise be lending the money, they invest the money in term or preferred shares or some other form of security so that the payment they receive gets enormously favoured income tax treatment. Several companies in my riding have been able to take advantage of this.

When people talk about our income tax system and allege that there are not enough incentives, I think it ought to be borne in mind that when one compares our situation with the situation in the United States, one finds that we have very generous incentives which in many cases exceed those available in the United States.