

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Tuesday, June 26, 1951.

The Standing Committee on Banking and Commerce, to whom was referred Bill 296, an Act to amend the Income Tax Act, met this day at 11.50 a.m.

Hon. Mr. Hayden in the Chair.

The CHAIRMAN: Gentlemen, when we adjourned on Thursday last it was for the purpose of getting some explanation or statement from the Minister of Finance in connection with section 12 of the bill, the section which imposes a defence surtax on corporations. The section omits something which was contained in the budget resolution, namely the reference to the right to earn a minimum of 5 per cent of capital employed before application of defence surtax. The Minister is here.

Hon. Mr. HAIG: Mr. Minister, we read your resolution and, to be candid, we read the statement that you made in the other place—I suppose you call it the House of Commons, but we call it “the other place”.

Hon. Mr. ABBOTT: We turn that about and call the Senate “the other place”.

Hon. Mr. HAIG: You say that you—I presume that means your officials—will try to find a formula for working this thing out; and, as I understand it, although you do not hold out very high hopes you think it is possible that a formula may be found. I agree with what Senator Hayden said when he explained this bill in the Senate, that when you know the definite result that you wish to obtain and you know the facts that you have to deal with, it should be possible sooner or later to find a formula. Now what we are wondering about is this: If a formula is found will you be willing to give the public utility companies—I think they are the ones chiefly affected—the retroactive benefit of the formula?

Hon. Mr. ABBOTT: As I indicated in my budget speech, I am concerned, and I am sure anybody who knows anything about these things is concerned, when the tax on corporation profits gets to a level of—well, you can put it at any figure, but say 50 per cent—because, as I had occasion to say in this Committee before, we all realize that the tax has to be passed on to the people who buy the goods or services of these corporations, and the tax imposes a terrific penalty on efficiency and incentive and so on. And in the case of certain corporations, perhaps notably the public utility corporations, it is difficult to adjust their rates quickly to prevailing costs. They are controlled by various boards and so on, and sometimes it is difficult to get increases which are necessary in order to pay their costs and provide a reasonable return on capital. So I hope and my advisers hope that with respect to that type of corporation and any other type of corporation whose profits for one reason or another might not increase substantially under existing conditions we might be able to establish a rule whereby if their profits did not exceed a certain figure they would not be subject to the defence surtax, and we used the term “capital employed”.

The intention was excellent and we tried very hard indeed to arrive at some definition of “capital employed” which would be fair to all taxpayers. We were not able to succeed, and consequently I came to the conclusion that the only course to follow in the circumstances was to make the defence surtax