I put to the minister two points. I ask him why it is necessary to have this complicating and perplexing addition to the act—the words "directly or indirectly." I think anyone who is familiar with it at all knows how far this may take you and how difficult it may be. Is there some strong reason why it has to be done? Second, why need this be made retroactive when, as I have indicated, it is certainly going to affect prejudicially existing situations?

Mr. Abbott: I will answer the second question first. I would not personally have the slightest objection to having this made effective from 1951 on, but it would not give relief to cases such as the brother in Halifax who had a company and the brother in Vancouver who had another company but could not agree as to who should get the $10,000 exemption. This is intended to be entirely a relieving provision, and is intended to apply from the time we brought in the definition of related companies. But I think my hon. friend will find that if at his insistence I agree to make this 1951 instead of 1949 he may have had one kick from one person, but he will get an awful lot of kicks from others who will be prejudicially affected by not making these relieving provision changes from the time that the definition of related corporations was first introduced in this act. I know that is the case. I do not know of the particular case that my hon. friend has in mind, but this is in itself entirely a relieving provision.

We had a great deal of difficulty with this section to get a definition of what were related companies, and as usual in these cases where we are working out a condition to block a possible loophole, we make the definition pretty tough, and when we see what the circumstances are we relax. This is relaxing this provision.

So far as the words "directly or indirectly" are concerned, I think these words should stay in the act because I do not think a person should get the benefit of this special low rate of tax by in fact having two companies, although in form he has no shareholding in the other. That would be a matter for the income tax appeal board if there was a question to determine as a matter of fact whether in fact he owned directly or indirectly the required percentage of the issued shares.

I feel I must insist that the phrase stay in. It is a fairly common phrase that lawyers know in legal drafting. In the province of Quebec we have a legal phrase that you cannot do indirectly what you are prohibited from doing directly. As I say, this is a relieving section and we are spelling it out in terms in the section. I would urge the committee to consider pretty carefully before they make it effective from 1951 on, and not from 1949 when the definition was first put in.

Section agreed to.

Mr. Fleming: We slipped over section 10 rather quickly. I have a question that I should like to ask, and wonder whether I could ask it now.

Mr. Abbott: Yes, certainly.

Mr. Fleming: Reference is made in section 10 to tax credits. In the amendment you are limiting the tax credit to dividends from a taxable corporation. What would be examples of other corporations than those in respect to which dividends are being paid?

Mr. Abbott: Foreign business corporations.

Mr. Fleming: That is all you have in mind?

Mr. Abbott: Yes, that is right, that sort of case.

On section 12—*Defence surtax.*

Mr. Abbott: I am afraid I have to intervene here. This is the section which provides for the surtax on corporations, and the amendment which I shall ask one of my colleagues to move in a moment strikes out the provision under which corporations, if certain conditions were fulfilled, would be given relief from the 20 per cent defence surcharge.

The committee will recall that in my budget speech I expressed concern over the fact that the proposed increase in the corporate tax, when considered in conjunction with provincial corporation taxes, could mean that more than half of a corporation's earnings would be taken away in taxes. At that time I made special reference to the position of certain classes of companies, for example, where there is public control of rates and where the companies ordinarily are able to earn only a modest return on capital. With this group particularly in mind I made provision in the income tax resolution for abatement of the 20 per cent surcharge and I quote from the resolution:

> To the extent that it would reduce the corporation's taxable income after payment of ordinary income tax to an amount less than 5 per cent of its capital employed.

Many hon. members who are familiar with the difficult practical problems which arose under our wartime excess profits tax will not, I believe, be surprised to learn of the troubles I have encountered in attempting to work out a definition of "capital employed" for purposes of relief from defence surcharge which, while giving some relief in the directions intended, would not be unsatisfactory