

Income War Tax Act

non-residents, the tax being deducted at the source. To the extent, therefore, that "4 (k) companies" distributed their income to non-residents a five per cent tax was paid following 1933. In practice this has meant that the publicly owned financial or investment companies, the international companies, that is, have been contributing five per cent to the treasury on their distributed earnings, while generally speaking the personal holding companies which allow income to accumulate have not paid any tax.

It is this latter class which is now being excluded by this amendment from section 4 (k). At the same time a new tax category is being established for non-resident owned investment holding companies with a tax rate of $7\frac{1}{2}$ per cent; that is, one-half of the general corporation rate, under which these personal holding companies may elect to pay. Otherwise the full general corporation tax will apply. The publicly owned investment holding companies now in the 4 (k) category may remain there. However, they are not excluded from paying under the new category if they wish to carry on business and hold assets in Canada provided that they are entirely owned by non-residents. From the proposed amendment I think it may be said that three results will follow which should be regarded as desirable. One, personal holding companies will be excluded from using a category in the income tax act not intended for their use. Two, revenue will be increased by forcing these companies into the tax paying class. Three, under the new category investment holding companies will be able to invest in Canadian securities, which they could not do while remaining in category 4 (k) of the Income War Tax Act.

I do not know that I need go over in detail the various paragraphs of the resolution. I have endeavoured at this stage to give the purport and intention, to state what we are intending to accomplish by it. I think it answers the observation of the hon. member for Rosetown-Biggar (Mr. Coldwell), except that one should say this: speaking as Minister of Finance I am not anxious to kick these people out of Canada; I am anxious that they should pay taxes to Canada. Up to the present they have paid taxes when they distributed their income. In the case of the rest of us who pay income tax, corporations and individuals, the levying of the tax depends not upon the distribution of the income, but upon the receipt of it. In future we intend that these companies shall pay tax on their income whether it is distributed or not.

[Mr. Dunning.]

Mr. CAHAN: The minister is referring solely and exclusively to personal holding companies?

Mr. DUNNING: Personal holding companies, in that connection. With regard to what may be called the general international concerns which incorporate here for any one of a number of reasons, whose assets are all over the world, we are giving them an option. They will be paying $7\frac{1}{2}$ per cent and we think it is not an unfair rate to charge under the circumstances.

Mr. CAHAN: Does the minister think he will hold them here if he increases the rate from 5 to $7\frac{1}{2}$ per cent? I know of a number of such companies. Originally they were incorporated in Canada because of the security obtained under Canadian law. One large company of which I know was incorporated under the Canadian Companies Act after a conference of lawyers representing several international interests had examined the French law, the German law, and the United States law relating to the incorporation of companies. They preferred to seek Canadian incorporation because they felt that under the Canadian Companies Act there was greater security than there would be under certain foreign acts. Canada, therefore, was decided upon as the domicile of the proposed corporation. In so far as they declare and pay dividends to Canadians, if there are any Canadian shareholders, such dividends are entered by the recipients in their income tax returns, and therefore Canada obtains payment of the full amount of the tax. But in so far as such dividends are paid to holders of stock in the so-called international corporation who are resident abroad, they are compelled to-day to pay not only the five per cent, which is withheld from them at the source in Canada, but also the heavy income taxes which are assessed by the several countries in which they may be domiciled. That is, a shareholder of such a company living, say, in a South American state would pay first the five per cent which was withheld at the source in Canada, and then the income tax in Argentina, or Brazil, or in France, or Great Britain. That makes the compensation which is paid by these shareholders for such security as they may obtain under the Canadian Companies Act or other act of incorporation in Canada, very heavy indeed in many cases. I suggest it is all to the good that the government should encourage the organization of such companies in Canada, and it seems to me that five per cent is a pretty heavy tax. If I