

Taxation Reform

with \$3,000 of exemptions and deductions? This would be a married taxpayer, presumably with no children and with a \$3,000 deduction. Suppose it was a really small corporation, with profits of, say \$8,000 before the owner's salary, and the owner drew \$6,000 in salary and left \$2,000 in the corporation. Under the proposed system, the \$2,000 would bear tax of 30 per cent instead of 21 per cent, or \$600 instead of \$420. This represents a difference of \$180 for someone with a \$8,000 income in the corporation.

If the company earned enough to pay the owner \$6,000 in salary and still have \$10,000 profit left, the proposal would increase the net tax on the \$10,000 to 34 per cent from 21 per cent, or \$3,400 instead of \$2,100.

The only cases in which the rate would go from 21 per cent to 50 per cent would be cases where the shareholder had other income of \$27,000 or more. And may I point out that the 30 per cent rate, the 34 per cent rate and the 50 per cent rate are the same rates as are paid by others with the same income who do not have a corporation.

The government feels that its proposed system is a fairer way of taxing small businesses, by giving the lower rates to shareholders with small incomes, which can file as a partnership, rather than to corporations which may have small incomes but be owned by Canadians with very large incomes. Nevertheless, it recognizes that the proposals represent a significant change. It is for this reason that we have proposed that the change proposed in the paper be phased in over five years.

I should also like to point out that comparing the 21 per cent rate with the 50 per cent rate is not quite fair in the case of closely-held corporations. The 21 per cent rate as it existed was the rate that the corporation paid. The way the money would be taken out of the corporation ultimately was either through the application of section 105 of the Income Tax Act, or through the services of a broker. In the latter case, a tax of 16½ per cent was involved, as one found out when taxing people who had gone through dividend strips, and made their claim stick. If the money were taken out through the application of section 105, one would take half of the money out by way of dividends, pay tax on them, and then take the other half out by paying a flat rate of 15 per cent.

So that the effective rate was not 21 per cent. The money was put into the shareholder's

hands, but the rate was somewhat closer to 40 per cent or above. The important thing was the postponement of tax, a very advantageous procedure and one that is not justifiable in circumstances where someone is paying a 21 per cent tax on his first tax dollar of income in the future. However, as I said, these three questions I have mentioned are questions on which there has been wide discussion and on which we should like to see discussion in the committee. I am sure we can anticipate lengthy discussion in the committee.

● (12:30 p.m.)

Mr. Wahn: Would the minister permit a question, please?

Mr. Benson: I am just about finished.

The last item I should like to discuss is the increase in personal exemptions. The Leader of the Opposition (Mr. Stanfield) said in Edmonton last week that the really poor in this country do not pay income tax anyway. The proposed exemptions would mean that a single man with an income of \$1,500 would be exempt. It would also mean that a married man with two children would be exempt on \$3,500. In my opinion, people in these circumstances are relatively poor in Canada. I think it is a step in the right direction to be able to take the 750,000 people in these categories off the tax rolls of our country.

I am not claiming that tax reform is going to solve all of the social problems of our country, the problems of people on low income. Through tax reform the only people you can help are people who pay taxes. The other side of the coin has to be looked at in a review of social welfare schemes and systems in existence within the country. Indeed there is a committee of the cabinet, as you know, considering the Willard Report. They have been looking into this matter and ultimately will produce ideas on this side.

All I have been trying to do here is provide a fair and equitable tax system. We in Government believe that the system proposed is a good one. As I said, it is being put forward as a proposal for discussion, to be brought into study whereby it will be accepted by Canadians as being a good tax system.

Certainly, I can indicate to the committee that my department officials will be pleased to give all the assistance we can in order that the committee of the House of Commons may have hearings which are informed and have