CANADA

EIGHTEENTH REPORT

OF THE STANDING COMMITTEE

ON FINANCE, TRADE

AND ECONOMIC AFFAIRS

# RESPECTING THE WHITE PAPER ON TAX REFORM

OCTOBER 1970

SECOND SESSION, 28th PARLIAMENT

GASTON CLERMONT M.P., CHAIRMAN

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# EIGHTEENTH REPORT OF THE STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS RESPECTING THE WHITE PAPER ON TAX REFORM

**SECOND SESSION**
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**GASTON CLERMONT M.P.,**
**CHAIRMAN**



99519—1

STANDING COMMITTEE ON FINANCE, TRADE AND ECONOMIC AFFAIRS

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| Gauthier | McCleave | Saltsman |
| Kaplan | | Trudel |
| | | Whicher—(20) |

Other Members who served on the Committee during the study of the White Paper on Tax Reform: Messrs. Buchanan, Deakon, Francis, Goode, Horner, Lind, Mazankowski, Olser, Paproski, Smerchanski, Thompson (*Red Deer*), and Woolliams.

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October 5, 1970

The Standing Commiteee on Finance, Trade and Economic Affairs has the honour to present its

EIGHTEENTH REPORT

Your Committee has studied the White Paper on Tax Reform in accordance with its Order of Reference of Friday, December 19, 1969, which reads as follows:

> That the White Paper entitled Proposals for Tax Reform, tabled in the House on November 7, 1969, be referred to the Standing Committee on Finance, Trade and Economic Affairs.

In response to a press release issued by the Chairman on December 19, 1969, indicating that the Committee would receive briefs from the general public, a total of 524 briefs were received as well as 1,093 letters and other submissions.

In the course of its studies your Committee has held a total of 146 meetings and heard 211 briefs presented by 820 individuals. A complete list of witnesses is attached hereto as Appendix A.

The Minister of Finance and his officials appeared before the Committee at the beginning of the hearings, and both he and the Minister of National Revenue appeared with their officials at the close of the hearings.

In the latter part of July 1970, two Sub-committees of your Committee travelled to the Atlantic and the Western Provinces respectively to hear additional submissions. During these trips, the two Sub-committees held 31 meetings and heard 68 briefs presented by 205 individuals. The witnesses heard during these meetings are included in the figures quoted above and listed in Appendix A.

The briefs not presented at sittings of the Committee were considered by Committee members in their written form and a list of these is included at Appendix B.

A list of individuals and organizations who submitted letters of comments and recommendations is attached at Appendix C.

PROPOSALS FOR TAX REFORM

# CHAPTER 1

## Introduction

As the above figures on numbers of briefs received and the number of witnesses heard indicate, the submissions with respect to the White Paper proposals for tax reform represent the greatest input of opinion and suggestion any Canadian Parliamentary Committee has encountered. These briefs and the record of the hearings form a part of this report. The submissions ranged from expositions of general philosophy to detailed analysis of the effects of the White Paper proposals on specific taxpayers.

The degree of public participation in the formulation of tax policy, as far as your Committee is aware, is unparalleled. Brief after brief, whether supporting or critical of special proposals, commended this process.

Views were also received from outside Canada, from eight of the provincial governments and from representatives of Canadian municipalities. The Committee commends and thanks all those who assisted it by making their views known, often at considerable cost in time and money. In particular, it wishes to thank those provincial governments whose representatives appeared before it or which filed views with the Committee. The provinces, of course, will also be continuing discussions with the federal government with respect to tax reform. Their co-operation with this Committee added a most valuable dimension to the hearings in that it assured this Committee of a broader view of Canadian attitudes and concerns than would have otherwise been possible.

While the review process has been lengthy, your Committee feels that, overall, the procedure, cost and time have been fully justified, necessary and worthwhile.

One valuable result, your Committee feels, has been to give all taxpayers a much better understanding of Canada's tax system and of the difficult task any government has in collecting large amounts of revenue in an equitable manner while at the same time ensuring that the tax system is sensitive to the need for growth in the economy.

The process of public participation did not of course begin with the referral of the government's tax reform proposals to your Committee. It began with the appointment of the Royal Commission on Taxation in 1962. The Commission's Report and reports of the several provincial tax commissions, notably those of Ontario, Quebec and Saskatchewan, formed the basis of widespread debates and discussions of the principles upon which Canada's tax laws should be based. Following its assessment of these reports and taxpayer submissions with respect to them, the Government of Canada issued its White Paper, containing numerous proposals for tax reform.

Where the Committee has not recommended adoption of White Paper proposals it has sought alternatives, but has not attempted to spell them out in technical detail.

The Committee has come to certain conclusions on the principles and objectives which should guide tax reform. It is especially concerned that full consideration be given to the effects of tax reform on economic growth. It endorses the goals described in paragraph 1.6 of the White Paper:

—a fair distribution of the tax burden based upon ability to pay;
—steady economic growth and continuing prosperity;
—the recognition of modern social needs;
—widespread understanding of and voluntary compliance with tax laws, combined with enough detail to block loopholes;
—a system that can and will be used by the provinces as well as Canada.

We believe that these goals or objectives are shared by most Canadians.

The Committee has taken as its principal task the assessment of the White Paper proposals in the light of the criticism presented to the Committee, and their adequacy and acceptability as methods for reaching these agreed objectives.

There is one overall conclusion your Committee and, we expect, most Canadians have reached on the subject of reform as the result of the long debate on the White Paper proposals and the debate on the federal, and provincial Royal Commission reports which preceded it. It is that no tax proposal is exempt from valid criticism in a complex society with multiple objectives, and that no country has achieved a perfect tax system.

For this reason, while your Committee was presented with some different approaches to taxation, it confines its recommendations to the basic framework of the White Paper proposals. The Committee received several suggestions directed to the stimulation of long-term savings. In view of the importance to the economy of a steady flow of savings in the private sector, we commend these to the Minister of Finance for further study.

*Principal Conclusions*

Your Committee's principal conclusions are as follows:

1. That the tax load now borne by lower-income Canadians be reduced. The Committee is especially concerned with the plight of low-income Canadians, who have been less able than other taxpayers to protect themselves against the inflationary and unemployment pressures in our economy.

2. That in principle capital gains should be taxed and that the revenue base be expanded in other ways.

3. That preservation of an economic climate favourable to growth must be a central consideration of Canadian tax policy. In order to maintain this climate, it is necessary to ensure that those who have acted in good faith in the past are not retroactively penalized. This applies particularly when this past activity has been in the direction of the objectives being sought in the proposals.

Particular recommendations of this report flow from these principal conclusions.

*Objectives and Taxpayer Reactions*

Paragraph 1.6 of the White Paper containing a summary of the Government's view of the appropriate goals of tax reform has already been referred to.

While we do not lay any great stress on the order of the words it is useful to note that equity is listed as first, followed by economic growth. As it turned out, in fact, it has been around the order of priority of these two objectives that the tax reform debate has centred.

It is also worthy of note that the Royal Commission on Taxation listed equity as first priority. There are studied and reasoned assurances in the Report of the Royal Commission, in the government's White Paper and in the opinions of many prominent tax economists, that such equity resulting from the Royal Commission recommendations and the White Paper proposals would not lead to any marked decline in the rate of economic growth. And all three—Royal Commission, government and economists—urge that even should there be some marginal retardation in growth this would be a worthwhile price to pay for greater tax equity. It will be recalled that the Royal Commission spent five years of research in arriving at these conclusions, and that the Department of Finance officials, drawn to a large extent from the private sector on a temporary basis to formulate tax reform proposals out of the Royal Commission recommendations, spent another two and a half years studying them.

Most witnesses before the Committee, however, put growth ahead of equity. The White Paper proposals sought to improve tax equity in a number of ways, for example by including additional amounts in the tax base and by removing opportunities to defer tax which have the effect of reducing the tax burden for some Canadians. It is clear from the representations received by Committee members both in formal hearings and in representations by constituents, that many Canadians fear possible reduction in economic growth as a result of this proposed improved measure of ability to pay.

It appears that a great many Canadians whose views were presented to the Committee have a view of equity somewhat different from that of the

Royal Commission on Taxation and the government. Equity, according to the Royal Commission Report and the White Paper, is to be sought as *between taxpayers,* and results from comparable treatment of taxpayers by governments. But to the average Canadian, judging from submissions received by the Committee, it seems to be equity *between himself and the government,* and to him this involves taking into account the source and form of additions to his ability to pay and other federal taxes and taxes at the provincial and municipal level.

Some taxpayers pursue this view to the point of arguing that it would be more equitable to give tax preference where amounts earned resulted from what they considered exceptionally hard work or more than normal risk. In the Committee's view, not only equity but common sense prescribes that exceptions to the ability-to-pay measure should be made only where a case is clearly made on general economic or compassionate grounds and widely accepted by other taxpayers, who will bear relatively more tax as a result of such exceptions.

Your Committee approves the basic approach taken in the White Paper on the question of improving the measure of ability to pay, since the alternatives suggested would require intolerable intervention in private sector decisions if people were taxed in relation to the government's opinion of the worth of a person's work to the community, how hard he had worked or how deserving he was of tax relief compared with another receiving the same income.

This difference in approach to equity, we surmise, arises essentially from the difference in perspective between, on the one hand economists and governments who tend to the total economic view, and on the other the taxpayer, who not unnaturally reasons from his particular circumstances to overall general conclusions. As a result, we have seen taxpayers who would face increased tax burdens under the proposals reason that because the proposals would have an adverse economic impact on them or their activities, there would be an equal or even greater adverse economic impact on the whole private sector of the economy. That this attitude was sometimes carried to extremes and even dramatized to the point of destroying credibility does not alter the fact that it exists.

It will be appreciated by all that at some point the two perspectives—of government and taxpayers—must merge to produce a workable tax system; that if there is to be a redistribution of a given tax burden, someone has to pay more in order for someone else to pay less. Since there are fewer people with more than there are with less, the proportionate increase in the burden on taxpayers with more will be greater than the individual reductions in tax for those with less.

The White Paper proposals have been viewed uneasily by many taxpayers, and sometimes with suspicion or hostility. Yet an effective self-assessing tax system must win taxpayer acceptance as well as meet the requirements of growth and equity. Because of this consideration a number of the Committee's suggestions for modifying White Paper proposals stem not from a belief that those proposals are inequitable or detrimental to economic growth, but from a concern for taxpayer understanding and acceptance.

The Committee is of the opinion that its recommendations, if implemented, would promote the equity emphasized in the White Paper and at the same time eliminate any possible bias against economic growth which some Canadians feared would be a by-product of the implementation of the White Paper proposals in their original form.

The Committee believes, therefore, that its recommendations will meet with general approval as a reasonable basis for building a fairer tax system.

# CHAPTER 2

# The Individual and Family

## 2.4 PERSONAL EXEMPTIONS

*White Paper Proposal*

Increased by $400 to $1,400 for single, and by $800 to $2,800 for married taxpayers. These exemptions, plus the $100 standard deduction, would mean that the income of a single person would not be reduced by income tax below $1,500 or that of a married couple below $2,900.

*Comments*

As indicated in the introduction to this report, your Committee found quite general acceptance of the proposal to reduce some of the burden of the present income tax for lower-income taxpayers. There was considerable debate about whether this relief should be provided through the medium of increased personal exemptions or tax credits. It was pointed out in submissions to the Committee in line with the Report of the Royal Commission on Taxation that tax credits provided a less costly method for giving such relief at the bottom of the income scale. The government's proposal to increase tax exemptions however was combined with a restructuring of the rate schedule. It was pointed out in the supplementary paper filed with the Committee by the Minister of Finance that when exemptions are increased and at the same time the rate schedule is changed it is possible to prevent the adverse effect of an exemption increase, which is to give higher-income taxpayers a greater tax saving.

We believe this to be a case where the result is more important than the method; and while the tax credit approach has a great deal to commend it in terms of being adjustable from time to time without a restructuring of the rate schedule, the exemption procedure does have the advantage of retaining a method to which individual taxpayers are now accustomed.

It will be recalled that the White Paper suggests that following the implementation of the basic reforms proposed the question of a family unit basis for individual taxation would be considered. We urge that this be given high priority, and that when this reconsideration takes place the question of credits versus exemptions be again reviewed with the object of determining at that time which approach provides the best mechanism over the long term for the adjustment of taxes at the lower end of the income scale.

*Recommendation*

**We recommend that the exemption procedure be continued at this time and that the exemption increase as proposed in the White Paper be adopted.**

## 2.6 DEPENDANTS EXEMPTIONS

*White Paper Proposals*

Remain as at present; family allowance payments remain exempt.

*Comments and Recommendations*

The White Paper states that the deductions for children and other dependants would be continued until the current review of Canada's social security and social development programs is completed. The Committee acknowledges the interrelationship of these programs and the tax system, and therefore **recommends continuation of childrens and other dependants' deductions at their current levels until such time as the review is completed.**

## 2.7-2.9 CHILD CARE EXPENSES

*White Paper Proposals*

1. Deduction of costs (including boarding school and camps up to $15 a week).
2. Maximum $500 per child under 14, up to $2,000 per family, but total not more than ⅔ of income of parent with lower income.
3. Must be no parent at home.

*Comments and Recommendations*

We regard the proposal to permit deduction of child care expenses for working parents as a major innovation for the Canadian tax system and one which is long overdue.

We have already drawn attention to the need to recognize the interrelationship of social welfare programs and the tax system. Because this proposal is an innovation, it seems desirable to examine in some detail the principle on which it is based.

The first question to consider is its purpose—that is, is it meant to give relief only to the needy, where the wife works from necessity or where there is only one parent, or is it meant to make it easier for women at all income levels to work outside the home, regardless of whether this is from choice or from necessity? If the latter, there would be justification for extending the scope of the relief to cover all expenses incurred. The White Paper states the measure is considered "desirable on social as well as economic grounds". The Committee has had difficulty in determining which of these grounds should be the principle for judging the adequacy of the proposal.

There is, of course, no question of the desirability of giving the relief to the needy. But the question of the woman who works from choice is different, and there is—or at least has been in the past—a feeling that she should not be encouraged to leave her children. One answer to this is that it is highly unlikely that a tax advantage would influence a woman who did not wish to leave her children to do so, or that its absence would deter one who did wish to leave them from doing so. While recognizing the principle that these are costs of earning income, the Committee at this time feels that the greater emphasis should be on the needy. **We therefore recommend the adoption of the proposal, with one change only, namely that the relief should be extended to cover the situation where there is a parent at home who is unable to care for the children by reason of permanent mental or physical infirmity. It should also be made clear that the deduction would be allowed to the parent with the lower earned income.**

Representations were made to the Committee that child care is not the only personal responsibility that might have to be met in order for a person to enter the labour force. It was suggested that the child care deduction proposal be extended to permit a similar allowance for caring for an incapacitated dependant or spouse while the other spouse is working. We think this would be desirable and would provide a limited deduction which would not be available under the medical expenses section of the *Income Tax Act* unless the person in attendance at home was a qualified nurse or unless the incapacity made it necessary for the afflicted dependant to be confined to bed or a wheel chair, or was totally blind.

## 2.10-2.15 EMPLOYMENT EXPENSES

### 2.11

*White Paper Proposals*

1. Limits on expense account living; no deduction for conventions, clubs, yachts, etc. Minimum "stand by charge" payable by owners or employees of business having car or aircraft available, or corresponding amount added to income.

(Note. Entertainment and convention expenses are dealt with later, under paragraphs 5.9 and 5.10 of the White Paper.)

A considerable amount of the opposition to the White Paper was generated by the sweeping proposal to eliminate so-called expense-account living by senior employees and people in business and professions. Most submissions to the Committee were strong in the view that the Department of National Revenue was already empowered under the present law to curb abuses. Witnesses from the private sector before the Committee contended that the degree of abuse in this area did not justify the strictures proposed in the White Paper. The Minister of National Revenue advised the Committee that it was difficult to distinguish between entertainment expenses and personal expenditures, and that while abuse was not widespread there was significant abuse by a limited number of people.

It was pointed out on numerous occasions that what could be described as expense account living was very often the only means of promotion or advertising for businessmen whose business does not lend itself to the more usual forms of promotion.

*Recommendation*

In the absence of any evidence to the contrary, the Committee finds itself unable to accept the breadth of the White Paper proposal. **We recommend that the Department of National Revenue should continue to apply itself vigorously in the pursuit of abuses, using the provisions already available in the *Income Tax Act* for that purpose.**

The White Paper further proposes in this paragraph that "owners or employees of a business having a car or aircraft available to them for their personal use, including travel to and from home would have to pay the business a minimum standby charge, or have a corresponding amount added to their personal income for tax purposes." What would be involved, of course, would be the tax on the standby charge or the amount included in income.

The Committee regards this as a fair proposal providing the standby charge is a reasonable one. **We recommend that the standby charge be related to a portion of the capital cost of the car or aircraft to the employer or related to the market rental charge for which the particular automobile can be leased.** The dollar amount of such a standby fee or inclusion in income should not be onerous but should serve to equate the situation of the person who has to supply his own car for transportation to and from work and for his personal use with a person who has the additional use of a company or business automobile when it is not needed for business purposes.

**2.12-2.13**

*White Paper Proposal*

2. General deduction for employment expenses at 3% of gross employment income, up to $150.

*Comments*

It has long been recognized by taxpayers, and by the courts—both here and in Britain—that discrimination exists in the tax system against employees in the matter of deductible expenses. The self-same expenses are often deductible where a person is self-employed and not deductible where he is an employee; the height of absurdity is reached when one person acts in both capacities and receives different tax treatment for the same expenses.*

* As for example in *Harbon v. M. N. R.*, 58 DTC 110, and *Mackay v. M. N. R.*, 58 DTC 447

Recognition by the government of this discrimination, through the White Paper proposal to allow employees a certain measure of relief, has been generally welcomed.

Its form, however is open to criticism. Some briefs have pointed out that the maximum of $150 a year is too much for some employees and too little for others. Those who do not in fact incur many, or any, expenses would benefit unduly; those who incur more than $150 would be unjustly penalized.

The ideal solution would be for all employees to submit detailed and authenticated claims, but the problems of administration and compliance that this would involve, and for very little result, seem to rule this out and to make some flat allowance, based on a percentage of gross earnings and with a ceiling—as proposed in the White Paper—the only practicable way to deal with the majority of employees.

There seems to be no valid reason, however, why those who have higher expenses should not be permitted to itemize and claim them, if properly substantiated. Since it seems likely that relatively few employees would avail themselves of this, the administrative burden would probably not be unduly heavy—probably not nearly as heavy as that involved in handling the claims of the self-employed—and justice would be done. Most briefs have advocated that this choice be given.

It may be noted that in the United States employees may itemize and claim deduction of all "ordinary and necessary" expenses in the same way as the self-employed. Employees are still not quite as generously treated as the self-employed, however. The self-employed may deduct *all* "ordinary and necessary" expenses from gross income in arriving at "adjusted gross income", and take the standard deduction as well, while employees may deduct from gross income only expenses in four specified categories—reimbursed expenses, travel expenses away from home, transportation expenses and expenses of outside salesmen—and must then take *either* the standard deduction *or* their itemized expenses. However, United States tax law does recognize the basic principle that an employee has a right to deduct ordinary and necessary expenses incurred in carrying on his work.

We note that the revenue cost of the White Paper proposals to allow the employees' general deduction, moving expenses and others amounts to $235 million (Table 15); we therefore hesitate to suggest that employees' deductions should be broadened. **We recommend however, because the principle is one of equity, that this be considered as soon as revenue needs permit, and employees given the option to itemize, substantiate and claim deduction of all expenses "laid out or incurred for the purpose of gaining or producing income", in the same way as the self-employed now do under section 12(1)(a) of the *Income Tax Act*.**

## 2.14

*White Paper Proposal*

3. Deduction for unemployment insurance contributions.

*Recommendation*

**Approved.**

## 2.15

*White Paper Proposal*

4. Changing jobs—deduction for moving residence when move is to location at least 10 miles closer to new job. Deduction only from income earned in new locality.

*Comments and Recommendations*

The proposal to allow employees to deduct the expenses of moving from one residence to another consequent on a change of job is an innovation in Canada and should contribute to the mobility of labour.

We were assured in testimony by government witnesses that the deduction would be allowed where there was a change of location of the job, even if no change of employer was involved, and that it would also be available to the self-employed. **We recommend that either the expenses be deductible in the year in which they are incurred, or that there be a carry-forward of one year for their deduction; for this purpose it seems that there should be some safeguard for the revenue, in the shape of a stipulation that a certain length of time must be spent working at the new location during the first year after the move.**

## 2.16-2.18 OTHER DEDUCTIONS AND EXEMPTIONS

*White Paper Proposals*

1. (a) Marital exemption (other than for supporting a spouse) only for a taxpayer who supports child or other relative who lives with him.

(b) No marital exemption plus dependant exemption where full time servant employed.

(c) No marital exemption for unmarried clergyman who employs servant.

2. (a) Additional exemption of $1,400 for married man to be reduced by $1 for every $1 that wife's income exceeds $100.

(b) Parent's deduction for children under 16 ($300) reduced by $1 for every $2 income of child over $900. For older children ($550) reduced by $1 for every $1 that child's income exceeds $950.

3. Additional exemption of $500 for the aged, blind and those confined to a wheel chair to be continued.

*Recommendation*

**Proposals 1, 2 and 3 approved.**

## 2.19 CHARITABLE DONATIONS

*White Paper Proposal*

Continue *status quo,* but add national amateur athletic associations to eligible list.

*Recommendation*

**Approved. There may well be other worthwhile institutions serving the public which should be added to the list.**

**To encourage gifts of works of art, manuscripts, scientific collections and so on, to public institutions, we also recommend an extension of Section 27(1)b of the *Income Tax Act* (which provides for deductions of gifts to Her Majesty in the right of Canada or a province) to include gifts to other Canadian public institutions which normally hold such objects for exhibition, study or research. We also recommend that capital gains tax provisions not apply with respect to such gifts.**

## 2.20 MEDICAL EXPENSES

*White Paper Proposals*

1. Medical expenditures for which taxpayer has been or can be reimbursed not classed as medical expenses. Contributions to other than government plans classed as expenses. Non-recoverable expenses continue deductible over 3% of income.

2. Contributions to public medical care plans placed on same basis as those to public hospital care. Employers' contributions for employee would therefore be a taxable benefit.

*Recommendations*

**Approved.**

## 2.21-2.27 ADDITIONS TO TAX BASE

*White Paper Proposals*

1. Unemployment insurance benefits.
2. Fellowships, scholarships, bursaries and research grants, with provision for deduction of tuition fees and research expenses.
3. Allowances under Adult Occupational Training Act (except for living away from home).
4. Salaries of visiting teachers from abroad, now exempt for two years.
5. Armed forces on same basis as all others.

**Recommendations**

**The Committee approves these additions to the tax base, but recommends that strike pay, when it is paid out of funds which have not been**

**subject to Canadian tax, be added to the list. We also recommend that fellowships, scholarships and bursaries be tax-exempt up to an aggregate of $500 a year.**

## 2.28-2.44 CHANGES IN RATE SCHEDULE

*White Paper Proposals*

1. Join basic rate schedule, old age security tax, social development tax, surtax and 20% reduction into one schedule (Table 2, p. 25). Provincial abatement of 28% eliminated, provincial tax calculated as percentage of whole federal tax.

**2.34**

2. Federal tax abated by additional 22% for Quebec residents.
3. Canadians who are resident for tax purposes but not resident in any province would pay additional 28% tax to equate them with taxpayers living in a province.

**2.37**

4. Tax of 4% on foreign investment income over $2,400 cancelled.

**2.42**

5. Top rate (combined federal and 28% provincial) to be reduced to 51.% in four instalments.

*Comments*

The Committee feels that it is sensible to combine the present various rates of tax into one schedule, in the interests of simplification.

However, there have been numerous objections from taxpayers about the additional taxation imposed by the schedule on income groups between $10,000 and $25,000, a group that already bears a heavy tax burden. Fears have been expressed that this will encourage emigration to the United States and other countries of many young professional people and skilled workers.

The Committee realizes that the disparity between Canadian and U.S. tax rates already exists, and also realizes that the differences between Canadian tax and U.S. tax, which have been greatly publicized, arise not so much from the rate schedules as from the differences in allowable deductions in the two countries, and also do not take into account additional social benefits which Canadians enjoy. The Committee questions the validity of contentions that any changes resulting from the proposals would contribute significantly to emigration.

An almost unanimous feeling among taxpayers appearing before the Committee is that the proposed 51.2% maximum rate in provinces levying a provincial income tax at 28% of federal tax cuts in too low in the income scale, at $24,000 of taxable income, particularly since high-income groups would be paying at the same rate. We do recognize, however, that whereas at present the 50% rate cuts in at $25,000 of taxable income, the $24,000 at which it would cut in under the White Paper proposals would be net of greater personal allowances than those in force at present.

The change in the calculation of provincial tax is simpler for the taxpayer, but is a matter for agreement between the federal and provincial governments.

*Recommendation*

**The Committee accepts the form of the proposed rate schedule, but recommends that where provinces levy tax at 28% of federal tax to a top rate of 60% be adopted, cutting in at approximately $60,000, that the cutting-in point of the 50% rate be raised to at least $30,000 of taxable income, and that the schedule be rescaled to reflect this. We also recommend that the rate schedule be adopted in one step rather than phased in over a period of five years as proposed.**

## 2.45-2.52 PENSION PLANS AND RETIREMENT SAVINGS PLANS

*White Paper Proposals*

**2.47**

1. Tax-free trusts for retirement plans not entitled to credit for corporation income tax proposed for dividends on shares in Canadian corporations.

**2.50**

2. Existing limits on contributions to be retained for the present (except for some lump sum payments), with later switch to a benefit limit. Plans primarily for the benefit of shareholders to be denied registration until that switch made.

**2.51**

3. Rules applying to investment of pension funds be the same as under provincial and federal laws respecting pension plans. For registered retirement saving plans (R.R.S.P.) the permitted range of investments could be somewhat wider.

**2.52**

4. Savings withdrawn (including at death) taxed at ordinary rates. A widow would be allowed to offset or reduce the income if she contributes all or part of proceeds to a R.R.S.P.

5. Rules to ensure that trustees are liable and responsible for paying taxes arising out of plan's operations.

6. Plans would not be allowed to invest more than 10% of their assets in foreign securities or other foreign investments.

*Comments and Recommendations*

1. The Committee sees no essential change from the present in this proposal, since tax-free trusts of this kind do not now benefit from the dividend tax credit. **The proposal is approved.**

2. The Committee recognizes that the proposed switch to a "benefit" basis could be of great assistance to those with fluctuating incomes and form an additional averaging device for those entitled to average. In view of the problem of plans primarily for the benefit of shareholders, **we recommend that the switch to the benefit limit be carried out as expeditiously as possible, and that decisions should be taken forthwith respecting plans at present under consideration. Subject to the foregoing we approve the proposal.**

3. **Approved.**

4. The Committee sees here the possibility of hardship in many cases when a death occurs. **We recommend that there should be special averaging provisions in these circumstances, allowing five-year averaging without a threshold to a widow or orphaned minor children.** We assume that other existing provisions for transfers as between various types of retirement plans would continue.

5. **The Committee recommends that the responsibility of trustees should be limited to a basic withholding tax.**

6. There has for some time been a rule (section 62(1)(a)) for pension trusts or corporations limiting exemption to where not less than 90% of income is from Canadian sources. The proposal is to change the limitation to an asset basis and extend it to all registered pension and retirement plans. Because of concern expressed about fluctuations in value from year to year, a number of representations made to the Committee contained requests that the proposed 10% asset limit be raised, so that the funds could invest up to 10% of its assets without endangering their tax status. The Committee has been assured by government witnesses that measurement would be on the basis of cost; and as a result we do not feel it necessary to recommend an increase in the limit. **We do, however, recommend that there be a suitable transitional period for adjustment to the new basis.**

## 2.53-2.59 INCOME AVERAGING

*White Paper Proposals*

1. When income exceeds average of previous four years by more than one-third (threshold level), excess taxed as though income brackets applicable to each rate were five times as wide as normal. Calculation can be done by computer. (See Tables 11 and 12).

2. Farmers and fishermen could use either present block averaging or new system.

3. Current averaging for lump sum business receipts (recapture, inventory revaluation, sale of inventory and receivables) phased out.

4. Lump sum payments out of pension funds, or on retirement, on new formula or paid into a R.R.S.P., over and above normal limits. Same opportunity for certain other receipt—as by authors, athletes.

5. For five-year transitional period, shorter series of years and lower "threshold".

6. Married person may use only unbroken series of years after being claimed as a dependant by spouse; a person under 25 only a series of years since the last in which he paid no tax.

*Comments and Recommendations*

The Committee approves in principle the proposal to give all taxpayers an option to average income over a period of years where the income of one year is unusually high in comparison with the others in the period. This appears to be equitable in any tax system, and to be essential in a system which taxes capital gains. However, a great many objections to the proposal as it stands have been raised by taxpayers appearing before the Committee, the consensus being that it is meagre. The Committee notes, however, that the cost of the proposal is estimated by the government at $50 million by the fifth year—a not inconsiderable amount.

It has been frequently pointed out that the proposal would not benefit anyone with an average income over $18,000 in the period. This is the result of the combination of the average income plus the one-third "threshold amount" and the cutting in of the maximum rate of 50% proposed in the White Paper at $24,000 of taxable income. Averaging no longer applies after that figure is reached. The break-in points would of course be different if the adjustments we propose in the rate schedule are accepted. The Committee feels that the "threshold" is too high and should be lowered, but we hesitate to recommend a precise figure for the lower threshold since we understand that lowering it to one-quarter would double the cost to the revenue.

The Committee agrees with the White Paper that the averaging provision should not be extended to what are simply growing incomes; it is intended as a relief to fluctuating and irregular incomes.

Another frequently voiced objection is that the provision does not cover years in which income decreases; it has been pointed out that taxpayers in such circumstances actually need the relief of averaging more than those whose income has increased. To provide for averaging in years of decreasing income would, of course, mean that taxpayers would receive refunds of some of the tax paid in previous years. This would be desirable in principle but the cost would be prohibitive.

We have been impressed by the efforts of the government to make the averaging proposal simple for taxpayers. It has imperfections, but is at least a good start in the application of a necessary and important principle. **We therefore recommend its adoption.**

**2. and 3. Approved.**

4. We have so far dealt with the general proposal for averaging. Coupled with it would be the elimination of special treatment, other than at death, for the averaging now permitted under sections 35 and 36 of the *Income Tax Act*. We are concerned about people who have participated in plans for which this special treatment was available, and we feel there should be alleviation of the retroactive effect which the White Paper proposals would have. The Committee feels that past contributions to and earnings of such

plans should be taxed according to the present law, and that future contributions and earnings should be subject to any new legislation that may be enacted.

There appear to be two ways in which this could be achieved: (1) to give the sections 35 and 36 treatment to amounts already in plans, when they are withdrawn at a later date; or (2) to devise a transitional method by which tax on such amounts could be calculated under the present provisions. The general proposals would apply to contributions after the implementation date.

We consider the first method excessively cumbersome, since "payouts" may not be made for many years, and this would involve retention of records by funds for an unduly long time. **We recommend the second approach.**

**5. and 6. Approved.**

# CHAPTER 3

# Capital Gains as Income

A most difficult tax structure issue with which the Committee was faced was how capital gains should be taxed.

The Committee is satisfied that from the standpoints of measuring ability to pay and minimizing the complexity of the tax system, there are many administrative and equity advantages to the full inclusion of a capital gains in the income base as proposed by the majority of the Royal Commission on Taxation. There are, of course, as the White Paper acknowledges, other important factors which must be taken into account.

Given a maximum personal tax rate of about 50%, a full offset of capital losses, full integration of corporate and personal taxes and generous averaging provisions, the apparent confiscatory effect of full inclusion of capital gains would be offset to a large degree, as would the adverse effects on savings, investment and growth. In fact, in the case of share gains, the Committee found it was demonstrable that in many cases the trade-off between full inclusion of capital gains on the one hand and integration of corporate and personal income taxes on the other would work to the taxpayers' benefit in comparison with half inclusion of capital gains from shares and credit for only half of corporate taxes paid. As a result, though United States tax laws were often held up as a desirable example, the White Paper proposals for taxing Canadian corporate source income of Canadians, including capital gains on Canadian shares, would be lighter overall in many instances than the overall burden in the United States, since in that country no credit for corporate tax is given against personal tax for corporate taxes paid. Other instances of where the White Paper proposals for taxing gains would result in less tax for Canadians than would result under United States tax law were also brought to the Committee's attention, such as on a sizeable portion of capital gains on homes and a portion of gains realized from personal property. In addition, the White Paper proposals for capital losses would be much more generous for taxpayers than in the United States.

However, other important factors are involved, and one decision can necessitate others. The government found it necessary because, among other reasons, of the level of capital gains tax elsewhere, particularly in the United States, and the fact that it was not administratively feasible to tax non-residents on gains on small holdings of publicity traded shares, to modify the Royal Commission proposals by proposing a half inclusion rule for gains from the shares of widely held companies. Canadians would not then be at a relative tax disadvantage in "growth stocks" where a more than average portion of the return took the form of capital gain, in which case the offset of integration was not present to as great a degree as in other situations.

This put capital gains from shares of widely held companies in what would appear to be a favoured position compared with gains on other shares and other assets (save a principal residence and personal property). We stress "what would appear to be" since the complementary proposals for half integration and half loss write-off would restore the balance to some degree.

In addition, the five-year revaluation proposal would, for widely held share gains, further balance the taxation of such gains with the taxation of other capital gains.

The Committee finds that the five-year revaluation proposal, while meritorious for some of the reasons mentioned in the White Paper, produces unfair results in certain circumstances for control-block resident shareholders and non-resident controlling shareholders. It is for these and other reasons, discussed later, that the Committee recommends the abandonment of the proposal.

Despite the above comments a main problem facing this Committee on capital gains was the question of why gains from the shares of widely held companies should in equity receive favoured treatment over other capital gains. In the Committee's view, with few exceptions, all capital gains should be subject to the same weight of tax. The government, as discussed above, had found it not feasible to tax widely held share gains at full rates. This fact, together with the repeated representations from the private sector and provincial governments that capital gains should not suffer the same weight of tax as other income, has led the Committee to conclude that, as a general rule, only half the gain realized from capital assets be taxed.

It follows that only half of any capital losses should be allowed as a deduction. The Committee also concludes that such losses should be deductible only against realized capital gains, except for excess deductible capital losses up to $1,000 a year which could be deductible against other income. Any undeducted excess should be permitted to be carried over to subsequent years and deductible as though it were a deductible loss sustained in that year.

In instances where the distinction between capital gains and interest or ordinary income is even less discernible than is usually the case, or where the gains arise on the sale of depreciable assets which are written off over a very short period of time, and where the value is often or usually the result of currently deductible expenditure such as wages and advertising, the Committee feels the full amount of the "gain" realized should be included in income and any loss fully deductible. Examples are: realized discounts on mortgages or bonds; gains on the sale of mineral and timber rights, goodwill, similar "nothings", leasehold interests and the 100% write-off class of depreciable assets, such as hotel and restaurant linens, tools and dies.

While the subject of integrating personal and corporate taxes and the method of achieving it are dealt with later in this report, it is necessary to touch on certain aspects at this point. It follows from the above general recommendations on capital gains, in the Committee's view, that credit for only half the corporate tax should be allowed against dividends from closely held companies, as the general rule.

We have considered the possibility of recommending retention of full integration for all closely held Canadian company earnings received by Canadian residents, even with half inclusion of share gains. But it seems clear this relief would deter some Canadian companies capable of going public from doing so. Also, where the closely held company was large enough to compete with widely held companies, full integration for closely held companies alone without the compensating offset for capital gains would be unfair to shareholders of widely held companies.

There does appear to the Committee to be a size of company to which these considerations do not apply; but instead of trying to draw another hard line, the Committee recommends that full integration be permitted on taxable income up to $50,000 of Canadian closely held companies (or an associated group of closely held Canadian companies that does not include a widely held company) controlled by Canadian residents.

The result of our recommendations in this area is to remove in most cases the effects of the distinction between widely and closely held companies, which were frequently objected to on equity and other grounds.

The Committee recognizes that for the Canadian shareholders of many larger closely held companies, and for some Canadian shareholders of widely held companies, the overall impact of tax under its recommendations would be heavier than under the White Paper proposals. The additional weight of tax on the gains of Canadians from shares of widely held companies would result from the recommendation for a maximum personal tax rate of 60% rather than approximately 50% as proposed in the White Paper. The heavier tax for Canadian shareholders of many closely held companies would result, of course, from the reduction in degree of integration, and the suggested higher top marginal rate. It should be noted, however, that half integration eliminates somewhat more of double taxation than the existing dividend tax credit.

These results are consequences of our recommendations of half inclusion for capital gains as the general rule.

## 3.13-3.18 WHITE PAPER PROPOSAL: GENERAL RULE

A. Realized capital gains would be treated as income and be fully taxable: and capital losses would be deductible from taxable income.

*White Paper Proposals*

B. *EXCEPTIONS*

There would be exceptions to full taxation for:
(1) principal residences;
(2) personal property; and
(3) shares of widely held Canadian corporations.

There would also be exceptions to actual realizations:
(4) shares of widely held Canadian corporations;
(5) gifts and bequests;
(6) other deemed realizations and
(7) rollovers.

*Recommendations*

**A. As a general rule we recommend that one-half of capital gains should be taken into income. One-half of capital losses should also be taken into account, and be deductible without limit from the taxable half of capital gains realized in the same year. If in that year the deductible capital losses exceeded taxable capital gains, an additional $1,000 of deductible losses should be deductible from other income. Any remaining excess should be carried over to subsequent years. Where gains on the sale of an asset are fully taxable, as in the exceptions previously alluded to (mineral and timber rights, goodwill, leasehold interests and depreciable assets written off for tax purposes over a very short period of time) losses would be fully deductible.**

## 3.21 B. 1. *Principal Residence*

*White Paper Proposal*

(a) Tax on profit in excess of $1,000 per year of occupancy. Applies also to sale of farm with farmhouse.

(b) Losses on sale of residence, other than farmhouse sold with farm, not deductible.

(c) Cost of improvements, or flat allowance of $150 a year, deductible in computing profit.

(d) Taxpayer who moves in connection with change of job, granted a "rollover", if proceeds of sale spent on another house within a year. Profit would be deducted from cost of second house.

*Comments*

There is general and strong opposition to the idea of taxing gains on the sale of residences; and this is not confined to Canada.

In Britain, profit on the sale of an only or a main residence is not subject to capital gains tax: a residence—or "dwelling house" as it is called there—includes one acre of land surrounding it, or a greater area if the General Commissioners rule that this is necessary for the reasonable enjoyment of the residence.

Under section 1034 of the U.S. *Internal Revenue Code,* where a residence is sold and another is bought within a year (either before or after the date of sale, so that there is a time span of two years), and the new house is actually used as a residence: if the new house costs as much as or more than the proceeds of the sale of the old, none of the gain on the old house is "recognized" for tax purposes; if the new house costs less than the sale price of the old, only the difference is "recognized" and taxed. (Losses are not "recognized"). Taxation is in fact only postponed, however, until the eventual sale of the replacement, since the cost base of the new house is decreased by the amount of non-recognized gain.

Many briefs presented to this Committee have criticized the government for saying that "generally, capital gains on the sale of homes would not be taxed", and then providing for the taxation of at least part of that gain in some cases. It is also felt that the amount of trouble for both taxpayers and the Department would be disproportionate to the revenue to be received.

Given the government's express intention not to treat these gains in the same way as other capital gains, there appear to be three alternative routes that could be followed.

First, such gains could be completely exempted from taxation, as is done in the United Kingdom. The reason for their exemption in that country may well be that the first taxation of "capital gains", in 1962, was really only taxation of what was termed "speculative" gains, and gains on the sale of residences did not as a rule fall into that category. Then when a full capital gains tax evolved this exemption was continued.

Under the second alternative the gains could be fully included in income and taxed at the same rate as other capital gains but with a lifetime exemption of some specified figure—perhaps the $25,000 suggested by the Carter Commission. That Commission recommended this exemption for two reasons.

> The complexities in maintaining adequate cost records over the periods involved if gains on residential properties were taxed would be considerably greater than would be involved for other types of property. In addition, the taxation of gains on such properties would give rise to pressure to have losses of a similar kind allowed, even though the losses might reflect in large measure costs of a personal consumption nature such as depreciation of a dwelling. Also, some form of roll-over provision, despite all its attendant complexities, might be demanded.*

As a third alternative the White Paper proposal could be adopted, but with an increase in the annual exemptions to a level where taxable gains would be rare, and would occur only where the gain was in excess of what might normally be expected; in fact, only what might be termed excess gains would then be taxed. Many suggestions were made in the briefs as to the

*Report of the Royal Commission on Taxation, Vol. 3, p. 358.

annual exemptions which should be given; the main problem here is one of regional disparity, in that an annual exemption which might be adequate in less developed parts of the country might be completely inadequate in fast-growing areas and cities. The annual figure would have to be arbitrary, and would not lead to equal treatment of all taxpayers. However, it seems to be generally agreed by the taxpayers from whom the Committee has heard that a figure of $1,500 would be more realistic than the $1,000 proposed in the White Paper.

*Recommendation*

**The Committee, after considering these alternatives, recommends that a gain or loss on the sale of a principal residence, together with the land surrounding it, up to one acre, not be taken into account for tax purposes.**

As a consequence of this recommendation, no "rollover" provision where a taxpayer moves in connection with a change of job is necessary.

2. *Personal Property*

**3.22-3.27**

*White Paper Proposals*

(a) Tax exempt except where proceeds of an item or set exceed $500; losses not deductible except where item or set cost more than $500.

(b) No loss deductible on sale of asset that depreciates through use (car, boat, cottage, etc.).

(c) Losses on property that does not depreciate through use (paintings, jewellery, etc.) deductible only from gains on sale of same type of asset.

*Comments*

Many taxpayers appearing before the Committee suggested that gains on personal property should be exempt from tax. Such an exemption, however, appears to us to be unjustifiable in the context of a tax system which has as one of its aims the promotion of growth. It would encourage investment in such property to the detriment of investment in more productive growth assets.

*Recommendation*

**We therefore agree with the White Paper proposals in this area, but we recommend, for compliance reasons, that the figure of $500 in paragraphs 3.23 and 3.24 should be replaced by $1,000 per item or set.**

**(b) and (c) approved.**

**3.28-3.30**

3. *Investments Other Than Shares*

(Bonds, mortgages, agreements for sale)

*White Paper Proposals*

(a) Profits fully taxed, losses fully deductible.

(b) If worth less on valuation day than taxpayer's cost—or amortized cost if bought at discount—recovery of cost or amortized cost not treated as income.

*Comments and Recommendations*

**(a) Approved.**

**(b) In view of our general recommendations on valuation we approve the special rules regarding amortized cost for bonds, mortgages and agreements for sale set out in the White Paper and later extended by the Minister of Finance.**

**3.31-3.38**

4. *Shares of Canadian Corporations*

*White Paper Proposals*

(a) For closely held corporations, gains fully taxed, losses fully deductible.

(b) (i) For widely held corporations one-half gains taxable, one-half losses deductible.

(ii) Revaluation every five years, gains and losses taken into account.

*Comments and Recommendations*

**(a) In accordance with our general recommendation on capital gains above, we recommend that one-half of the gains on the sale of shares of closely held corporations be taxed, and one-half of the losses be deductible, in the manner already set out by us.**

**(b) (i) Approved.**

(ii) Undoubtedly the proposal for quinquennial revaluation has considerable merit. It has been approved by many eminent economists as a desirable innovation which would simplify problems of reorganizations and minimize lock-in effects. However, more than any other proposal in the White Paper, this one illustrates the difference in viewpoint between economists and others on the question of when a capital gain or loss should be taken into account for tax purposes.

Taxpayers appearing before the Committee have been almost unanimous in condemning the proposal. Very briefly, the main objections voiced to us are as follows:

(i) A controlling shareholder might be forced to sell shares in order to pay tax, and might lose control; this might also lead to sale to foreign buyers in such circumstances. It might also deter companies from going public.

(ii) Large, but less than controlling, blocks of shares are not necessarily readily marketable (a presumption upon which the proposal appears to be founded) because of the "thin" Canadian market.

(iii) The tax system is based on the realization principle so that this is an exception to a generally accepted rule, and there should be stronger reasons for adopting it than have so far been presented.

(iv) Non-resident controlling shareholders would be taxed but would not in the absence of special treaty arrangements be in a position to claim credit against tax in their own countries, and this would deter non-resident companies from making shares in their Canadian subsidiaries available to Canadians.

(v) Fluctuations in market values of shares could cause additional inequity depending on an individual's revaluation date. In some cases this would produce inequitable results as between controlling shareholders of the same company.

**In view of these problems, for which no clear solutions have appeared, we recommend that the five-year revaluation proposal be abandoned.**

We recognize, however, that in order to prevent indefinite deferral something must take its place, to deal with situations arising (a) at death and (b) upon business reorganizations.

**We therefore recommend that there be a deemed realization of capital gains on death in respect of shares of widely held corporations.** In order to be consistent with our general recommendation that all capital gains, (with certain exceptions) should be treated alike we shall, under the heading "Gifts and Bequests", be recommending that this deemed realization at death be applied to all assets except those passing to a spouse.

One of the results of the abandonment of periodic revaluation is that detailed rules will be required for determining whether a corporate reorganization gives rise to taxable or non-taxable realizations. **We recommend that tax-free reorganizations be permitted as widely as possible where there is a clear business purpose, and that a system of advance rulings be made available in such situations.**

**3.41-3.42**

5. *Gifts and Bequests*

*White Paper Proposals*

(a) The present rules relating to transfers of depreciable property to apply to other kinds of property gifted during the lifetime of the donor. The present rules require that the person making a gift of depreciable property be treated as though he had sold the asset at its fair market value and then made a gift of the proceeds. The recipient is treated as though he had purchased the asset for its fair market value.

(b) Capital gains not to be accrued at time of death, but the person who inherits the assets be deemed to have purchased them at their cost to the deceased, plus death taxes paid on that part of the assets related to the capital gain.

*Comments and Recommendations*

These two paragraphs of the White Paper propose different capital gains treatment of *inter vivos* gifts and bequests. The Committee believes that these two types of gifts should, as far as possible, be treated in the same way for capital gains tax purposes.

We have already found it necessary to recommend deemed realization on death in connection with the shares of widely held companies; and in keeping with our recommendation that, with few exceptions, all capital gains be treated in the same way, **we recommend there be deemed realization at death for all capital assets.**

In so doing we recognize that the result may be a heavier tax burden than would arise from the application of the White Paper proposals which would have permitted indefinite deferral of capital gains accountability for other than shares of widely held corporations. This could result in a lighter tax burden even with a full-rate capital gains tax. However, having reached the decision to recommend half inclusion of capital gains, we have come to the conclusion that no alleviation such as that proposed in the White Paper is necessary.

Provisions similar to those now contained in the *Estate Tax Act* for time to pay tax should apply to all capital gains tax on deemed realization at death.

**We also approve the White Paper proposal that there be deemed realization for inter vivos gifts.** However, in view of the 1968 amendments to the gift and estate tax law, under which gifts and bequests between spouses are exempt from tax, neither recommendation should apply to transfers between spouses. A consequence of this is that consideration has to be given to such situation as that where a spouse, having received a tax-free gift of a capital asset which has appreciated in value, then sells it. In the absence of the family unit concept, this could result in abuse where the marginal rate of the recipient spouse is considerable less than that of the donor spouse. **We must therefore recommend that the attribution rules in section 21(1) of the *Income Tax Act* be made applicable also to capital gains so that capital gains realized by a spouse on asssets transferred by the other spouse be taxed to the transferor.**

CAPITAL GAINS AND ESTATE TAXES: Our recommendation for deemed realization of capital gains on death naturally magnifies the problem, brought to the Committee's attention innumerable times, of the concurrent impact of the two taxes at the same time, at death. The White Paper recognized the problem and provided, in paragraph 3.42, that there be no deemed realization but that the person who inherits the assets be deemed to have purchased them at their cost to the deceased, plus that part of the death taxes paid that related to the capital gain. This would be of great assistance where no actual realization was necessary in administering the estate or finding money for estate taxes. It would not help where assets had to be disposed of.

The Committee has considered several alternative solutions.

(a) Full or partial credit against estate tax for tax on deemed or actual capital gains arising at death. This would discriminate against the person who realizes his assets before his death as compared with one who does not, and it is obvious that full credit would completely negate the capital gains tax and make the deemed realization proposal pointless. Where there was a time period for credit, the discrimination would be against the person who realized prior to the time period.

(b) Complete elimination of estate tax.

(c) Reduction of the estate tax across the board, either by reducing the rates or by expanding the brackets. This measure would of course be general, and not specifically a relief against tax paid on capital gains; but it would reduce the effect of capital gains tax plus estate tax on death.

We note that the problem may not be as great as many taxpayers appearing before us have suggested, having in mind the 1968 amendments, to which we have already referred, by which bequests to a spouse are tax exempt.

**After much consideration, the Committee has decided to recommend the last alternative set out above, and suggests alleviation of the estate tax at least to the extent that: all exemptions be significanly increased, no estate of a value less than $150,000 bear tax, rate brackets be expanded and the maximum rate not cut in until a value of about $800,000 is reached.**

We appreciate that the Minister of Finance will wish to discuss this matter fully with the provinces, in view of their major interest in death tax revenues.

**3.39-3.40**

6. *Other Deemed Realizations*

*White Paper Proposal*

> On giving up Canadian residence, a taxpayer would be treated as though he had sold his assets on that day for their fair market value. A taxpayer moving to Canada would be treated as though on that day he had acquired his assets at fair market value.

*Comments and Recommendations*

Taxpayers appearing before the Committee have shown a basic reluctance to have barriers to entering or leaving Canada; one of the points of pride of Canadians is freedom to come and go at will. The Committee appreciates, however, that just as Canadians are now expected to meet their tax obligations on ordinary income before giving up Canadian residence, so they can reasonably expect the same principle to apply to capital gains. (We note that the White Paper speaks of giving up Canadian residence, so that the provision will not apply to such things as vacation trips abroad). It is true that the provision could be regarded as a potential tax on honesty—as several taxpayers have suggested to us—but the same could be said for other tax provisions.

The Committee feels that the provision has to be considered along with the proposals to tax non-residents on capital gains on the sale of Canadian assets except for sales of shares out of an interest of less than 25% in widely held corporations. So, for Canadians leaving the country, the only assets for which the revenue requires protection would be foreign assets owned by the Canadians and shares out of an interest of less than 25% in widely held Canadian corporations.

The main problem, which was pointed out in many briefs, involves short-term emigrants and immigrants. It is feared that the proposal would deter young Canadians from going abroad for relatively short periods of time to gain knowledge and experience, and conversely would deter people from other countries from coming to Canada and giving this country the benefit of their knowledge and experience. The apprehension seems to be a valid one.

**We therefore recommend that for persons entering Canada the rule should be suspended with respect to foreign assets if the stay is for no longer than a specified period—say three years. For persons leaving Canada, we recommend an option to take the deemed realization or to continue to be treated as a Canadian resident for capital gains purposes. If the second choice is made, there would obviously have to be provisions enabling the Canadian government to collect the tax. We suggest that the person leaving the country be required to deposit with a Canadian trustee sufficient Canadian assets or guarantees to cover the tax on gains already accrued but unrealized on foreign assets and shares of widely held corporations. Liability for tax on other assets would continue under the general rule proposed for application to non-residents. Our recommendation would involve deferral of tax, but would not act as a deterrent to temporary absences.**

A desirable additional approach would be for reciprocal treaty arrangements to be reached—as in other areas, to avoid double taxation—under which the country of residence at the time of realization would tax from the deemed cost base of market value at the time of taking up residence in that country. Given such arrangements, a deemed realization on leaving Canada would lose much of its sting.

This raises another aspect of the problem, that where non-residents holding Canadian assets move to Canada the proposal would appear to give them a new cost base for all assets, including Canadian assets. It seems anomalous that simply by taking up Canadian residence shortly before selling the assets,



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a non-resident could avoid Canadian tax. **We recommend that the new cost base not be applicable to Canadian assets other than shares in widely held corporations, except where there were reciprocal treaty arrangements.**

Under current United States provisions, Canadians going to the United States who do not take the precaution of realizing on their Canadian assets before taking up residence there, face United States tax on any realized gain from actual cost, even though part of the gain had arisen while the person was resident in Canada.

**The Committee recommends that such treaty arrangements be sought, and that the government consider a citizenship basis for taxation as an adjunct to the residence rule.**

**3.43-3.52**

7. *Rollovers*

*White Paper Proposals*

(a) Forced realization. If whole proceeds used within a year of receipt to buy similar property, no capital gains tax, but gain treated as reduction of cost of new property.

(b) No change of underlying beneficial ownership. Transaction to be treated as though there had been a sale at the cost of the assets to the taxpayer.

Three resrictions: not granted for (a) transfers to foreign corporations, (b) transfers to widely held corporations, or (c) transfers of shares of widely held Canadian corporations.

(c) If a corporation splits its shares without increasing its paid-up capital, the transaction would be tax-free. However, it would not be tax-free if (i) the corporation added something else, or (ii) the rights were varied.

(d) An exception to the "underlying ownership" rule is made for exchanges of shares between widely held companies.

*Comments and Recommendations*

**(a) Approved**

**(b) Approved**

(c) The Committee feels that the scope for tax-free reorganizations should be as broad as possible because (i) they are necessary in business and (ii) even though there may be a change in the underlying ownership there may be no actual realization.

**We therefore recommend that further consideration be given to this by the Minister of Finance.**

(d) Since we are recommending that the five-year revaluation be abandoned, it will be necessary for the Minister to reconsider the scope of tax-free reorganization and to develop rules.

## C. VALUATION

### 3.15

*White Paper Proposal*

Taxpayers to deduct from proceeds of sale of assets the value on "valuation day".

*Comments*

One of the points on which the briefs have been practically unanimous is that the proposed plan to value all assets, for capital gains purposes, at their value on valuation day could be unfair, if such value was below cost. Particularly at a time when the stock market and farm land values are at a low ebb, many taxpayers would find themselves paying capital gains tax on an actual loss.

The best argument in favour of the "market value only" valuation is its presumed relative simplicity. Another is that the proper way to treat unrealized capital gains and losses is on an accrual basis, day to day, month to month, or year to year, so that at any point in time the taxpayer has made a proper profit or a loss, as the case may be. Where that point in time is valuation day, there is an unrealized loss or gain, therefore, and that is the proper starting place for the new system; the accrued profit is not taxed, the accrued loss is a capital loss.

This latter argument, while theoretically sound, does not take into account the fact that in any income tax system what is taxed should be something that is added to the taxpayers' ability to pay. By proposing to include capital gains in income (with exceptions) and by broadeniing the tax base, the White Paper has accepted to some extent the Carter Report's definition of income as the accretion to economic power to purchase goods and services. To levy tax on what is neither a capital nor an income gain, but in fact an actual loss, is to go contrary to this concept, and indeed to any concept of equity.

*Recommendation*

**We therefore recommend that the value of an asset for the commencement of the system should be the higher of cost or market where a gain was involved, and the lower of those two figures where a loss had occurred. This means that no gain would be recognized unless and to the extent that the proceeds of sale exceeded the higher of cost or market, and no loss would be allowable on a sale below the lower of cost or market.**

**We also recommend that taxpayers should be permitted the alternative to elect to take the cost of an asset and apportion the gain over the period of years the asset was held, and to pay tax on the proportion of the gain accrued after valuation day. This kind of "safe haven" rule should be available as a simple, quick, mechanical method to eliminate the necessity of valuation in**

**appropriate circumstances. If this election were made, it would apply to all assets other than, perhaps, marketable securities, of that taxpayer and be irrevocable.**

*Capital Gains: Time Limit.* Before leaving the matter of capital gains, we feel we should point out that we have considered at length an aspect which was not mentioned in the White Paper but which was brought up by many taxpayers who appeared before us, namely whether there should be a time period for distinguishing between types of capital gains, such as exists in some other jurisdictions. The introduction of such a time limit would create additional complexity, for it would be necessary to decide whether short-term gains should be included as ordinary income and taxed at full progressive rates. This would encourage the retention of assets beyond the time limit where gains were anticipated, and the realization of losses within the time limit where such losses were anticipated. In order to prevent this bias, other jurisdictions have found it necessary to evolve a special "short-term" type of capital gain.

We have come to the conclusion that it is not desirable to make such a distinction, and that it is better to rely on existing jurisprudence to distinguish capital gains from ordinary income. We also recognize that the time an asset is held is already one of the factors used by the courts in determining the intention of the taxpayer in acquiring the asset, this matter of intention being as essential ingredient in the final decision as to whether the gain was capital or income.

As a final point on this, we also recommend that care be taken by the Department of National Revenue to ensure that profits of those professionally involved in the securities industry be treated as ordinary income and not as capital gains.

CHAPTER 4

# Corporations and Their Shareholders

The main topic in this chapter is the proposal to have an integrated system of corporate and personal taxes for Canadian resident shareholders of Canadian corporations.

We consider it important to define the Committee's understanding of the term "integration" because, in our opinion, much of the controversy about it springs from a lack of communication amongst the many participants in the debate.

As we understand it, the principle of "integration" contemplates a system whereby corporate income taxes are regarded in whole or in part as a prepayment of personal income taxes payable on the corporate income received by a shareholder in the form of dividends. Full integration would place the individual shareholder in the same position as if he had received directly his proportionate share of pre-tax profits of a corporation and would eliminate "double taxation" of corporate source income. And, of course, partial integration would go part way to that result.

There are different techniques available to attain the objective of full or partial integration, and, as previously indicated, for many years our tax system had used one particular device, namely the dividend tax credit. The White Paper recommends an integrated system by means of "gross up and credit", which in certain situations is capable of producing different substantive results than the dividend tax credit approach.

It seems to us that many of the witnesses who have appeared before us and attacked integration may have lost sight of the distinction between the principle and the technique. From the testimony we have heard, it seems clear to us that most people do want some form of relief from double taxation of corporate source income, and the debate is about the best method of accomplishing the objective.

The view taken of integration largely depends upon whether a corporation is regarded as a taxpaying entity on its own, entirely separate from its shareholders, or as a mere conduit pipe transmitting the earnings of the corporation into the hands of its shareholders. In Canadian tax history both points of view have been taken.

When income tax was first imposed in Canada in 1917, a corporation, though considered a separate entity from its shareholders, was also considered to be only a conduit pipe for passing on to shareholders the income earned by the company. Therefore, dividends paid out by a company were not subject to "normal" tax in the hands of shareholders, though they were subject to supertax, and later to surtax, on incomes exceeding $6,000. The rate of normal tax for both individuals and corporations was 4%.

This arrangement lasted, with variations, until 1925, but during the period the rates of corporations and individuals began to diverge, with the corporation tax getting higher than the individual tax, thus indicating that the conduit pipe theory was undergoing a change—though dividends were still exempt from normal tax. The change in thinking is further illustrated by the change in the treatment of undistributed earnings. The 1917 *Income Tax Act* (section 3(4)) had provided that for supertax purposes the income of a taxpayer was to include "the share to which he would be entitled of the undivided or undistributed gains and profits" made by a corporation unless the Minister was of the opinion that the accumulation of such profits or gains was not made for tax evasion purposes. In 1919 the provision was changed to state that the share of the taxpayer in the undistributed gains was *not* to be deemed income of the shareholder *unless* the Minister was of the opinion . . . etc. The change was more than from a positive to a negative form; the first section considered a proportionate share of the corporation's earnings as essentially the shareholder's, while the second did not so consider it.

In 1926 the exemption of dividends from normal tax was withdrawn, and various measures were taken to prevent the distribution of accumulated income tax-free to shareholders. From that time the separation of corporate and personal income was complete, until the introduction of the dividend tax credit in 1949. Because the rate of 10% was the same as the low corporate rate on the first $10,000 of income introduced at the same time, it achieved a form of integration for corporations with profits below $10,000, and was recognition of the fact that there was at least a certain amount of what is known as "double taxation" of corporate profits—in the hands of the corporation and again at personal rates in the hands of individual shareholders.

The degree of this "double taxation" has been the subject of much discussion, and the point of view taken depends largely on the determination of the question of whether, or to what extent, the corporate tax is "shifted" to consumers. If it is not shifted—that is, if it is borne by the corporation, which is to say by the shareholders—double taxation exists completely; if it is fully shifted, there is no double taxation; if it is partially shifted, there is of course partial double taxation. As the Report of the Ontario Committee on Taxation states: "In no area of tax theory are conclusions so divergent". * That Committee concluded, however, that "a fuller integration of the corporate and personal income taxes is called for".**

* Vol. III, p. 89.
** *Ibid.*, p. 95.

The Carter Commission opted for full integration, for reasons set out by it in Chapter 19 of its Report; the advantages which the Commission concluded were to be derived from it are summarized on pages 8-9 of that chapter. Integration was an essential part of the Carter "package deal", counterbalancing the full taxation of capital gains.

At the present time there is a 20% dividend tax credit for Canadian resident shareholders with respect to dividends from taxable corporations resident in Canada, or from a corporation, the shares of which were listed on a prescribed Canadian stock exchange having not less than 85% of its income from business carried on in Canada.

The White Paper has proposed integration in principle, while proposing to apply it wholly only to closely held companies, giving half integration to widely held companies. The distinction would also apply in the capital gains context; only one-half the gains on the shares of widely held companies would be taxed. The reasons given for the distinction between the two types of companies are that the closely held companies would be put in as nearly as possible the same tax position as partnerships and proprietorships, with which it is stated they generally compete, and that widely held corporations compete with other corporations of the same type and it is "likely that some level of corporation tax is passed on to consumers".

In addition the White Paper proposes a partnership option in certain situations which would also achieve full integration. In view of our general recommendations as to the degree of integration, the partnership option will have to be restricted in scope from that proposed in the White Paper, as is discussed elsewhere in this chapter.

## THE RELATIONSHIP BETWEEN INTEGRATION AND CAPITAL GAINS TAXATION

On the grounds of equity and favourable economic impact on savings and growth, especially where capital gains on shares are taxed, and as an incentive to Canadians to invest in Canadian companies we were attracted to the argument for the full integration of all corporate and personal income taxes as proposed in the Report of the Royal Commission on Taxation.

However, we also recognize that other factors must be taken into account, some of which are listed in the White Paper in explanation of the White Paper proposal to provide full integration for Canadian resident shareholders of Canadian closely held companies and half integration for Canadian resident shareholders of Canadian widely held companies.

The Committee is aware that no part of a tax system can ignore other aspects of the system, from the perspective of equity, economic impact and revenue requirements, and therefore accepts the views that the degree of integration which is introduced into a system must generally be related to the level of capital gains taxation in the system, as previously indicated.

We are also attracted by the argument that regardless of the description of the corporate source increments, i.e. from dividends or capital gains, the burden of the tax should be substantially the same, and therefore at the present time our general rule should be either full inclusion of capital gains in income and full integration, or half inclusion of capital gains and half integration.

Earlier in this report we recommended half inclusion in income of capital gains, that is, on share and other gains, with certain important exceptions.

*Recommendations*

**We therefore recommend that the general rule be: half integration for Canadian residents with respect to all Canadian corporations resident in Canada, whether widely or closely held.**

**To this we recommend an important exception, that the benefit of full integration as proposed in the White Paper be adopted for $50,000 of taxable income annually of closely held Canadian corporations (or an associated group of such corporations that does not include a widely held corporation), where such corporation or group is controlled by Canadian residents.**

The above recommendations have, of course, to do with the degree rather than the form of integration.

The question therefore now becomes how to accomplish the objective of reducing double taxation of corporate income. The alternatives before us are the present dividend tax credit and the integrated system proposal by means of "gross up and credit" outlined in the White Paper. An advantage cited for one approach very often can be considered the disadvantages of the other, and vice versa.

For the sake of both completeness and brevity, therefore, the advantages common to each, and then the advantages and disadvantages cited for each, are listed in point form only. The Committee does not necessarily consider as valid all of the points listed.

I. *Advantages of integration obtainable through a dividend tax credit or an integration credit system using a gross up and credit method of calculation:*

1. Encourages Canadians to invest in Canadian companies because the benefit of integration is not normally extended to dividends received from foreign corporations. This is the situation under both the present system and the proposed White Paper system.

2. Eliminates in whole or in part (depending on the degree of integration) the burden of double taxation of corporate income, i.e. at both the corporate

and personal level when dividends are received. This reduction in double burden is generally considered to be desirable from the sandpoint of equity and economic impact.

3. Each technique permits or can be adjusted to permit the "flow through" of incentives granted at the corporate level to shareholders, thereby preserving the "incentive" effect throughout the entire system.

4. Each technique permits or can be adjusted to permit the shareholder to enjoy the benefit of integration even if the tax paid by the corporation was paid to a foreign jurisdiction and not to Canada—e.g. the "flow through" of credit for some foreign tax proposed in the White Paper. In the result, depending on the policy considered appropriate, the shareholder need suffer no double taxation even if the company in which he is a shareholder is earning part or all of its income abroad. Similarly, either system could permit a shareholder to enjoy tax relief at the personal level even if no Canadian tax was paid by the corporation because it operated through a foreign subsidiary in a tax-free or low-tax jurisdiction.

5. The greater the degree of integration in the system, with the consequent elimination of double taxation of corporate source income, the greater the stimulus to economic growth through the corporate sector of the private sector.

6. Each system can be designed to produce virtually identical benefits for all levels of income.

7. Revenue costs of each system can be made comparable, depending on the degree of integration chosen and the incentive benefits chosen to flow through to the shareholder.

II. *Present Dividend Tax Credit System—Advantages*

1. Simple for individual taxpayers to understand and manage; requires little or no record keeping by the dividend paying company.

2. Well accepted by the tax paying community as a result of long exposure and experience.

3. Does not discriminate at the shareholder level between foreign and domestic source income derived by the dividend paying corporation which qualifies under the *Income Tax Act;* credit available to recipient of dividend regardless of source of corporate income.

4. Similarly, does not discriminate at the shareholder level between corporate source income which has or has not borne corporate tax; in the result, tax incentives granted at the corporate level can flow through the total system and be enjoyed at the individual level.

5. Since rebates are not available to low-rate taxpayers, dividend tax credits create relatively less revenue drain.

6. Is accepted abroad and therefore little likelihood of any future pressure to extend the credit to foreign shareholders of Canadian companies. Although the dividend tax credit is a form of integration, it operates purely at the shareholder level (i.e. no corporate record-keeping of creditable tax) and therefore does not *appear* to be a "refund" system available on a discriminatory basis only to Canadians.

7. Permits continuation of flow of tax-free intercorporate dividends—a simple technique. (However, taxation of capital gains and allowance of capital losses would probably prevent the present simplicity from being maintained in its entirety.)

8. Stock dividends not needed to prevent stale-dating of creditable tax.

III. *Present Dividend Tax Credit—Disadvantages*

1. No rebate available to taxpayers whose marginal rate is lower than the rate of the tax credit.

2. Is of relatively greater benefit to higher marginal rate taxpayers.

3. Provides relief even where no Canadian corporate tax paid.

4. Necessarily permits "flow through" of tax incentives granted at the corporate level and of foreign taxes paid whereas, as a matter of fiscal policy, this may not be appropriate in the case of some or all of such incentives and/or foreign taxes.

5. Does not permit "flow through" in a tax-free manner of capital gains (after capital gains tax has been paid by the corporation)—i.e. except on liquidation the underlying source of a dividend is not recognized and all dividends are taxed in the same manner.

6. Whatever its purpose and intent, the dividend tax credit functions as a generalization and is not an accurate measurement of an integration objective.

7. Has been under political and economic attack for many years.

8. Relatively inflexible—cannot be readily adapted in its present form to full integration—an increase in the rate of credit merely aggravates the criticism noted above as Nos. 1, 2 and 3.

9. As a consequence of No. 8 above, the present level dividend tax credit preserves a degree of double taxation of corporate source income within the system, and to that extent does not function as a growth stimulant in the corporate sector.

10. White Paper proposal to "flow through" portion of foreign withholding tax would become largely redundant. Its removal would have an adverse effect upon foreign shareholders of a Canadian company receiving taxed income from a foreign source.

11. The free intercorporate flow of dividends associated with the dividend tax credit system would continue the problem of the "'incorporated pocket-book" which has escaped the personal corporation rules.

12. Many tax systems do not recognize that any form or degree of integration or removal of double tax is justified in view of the likelihood that the corporate tax is not borne by shareholder but passed on in whole or in part to customers, labour or suppliers.

To many people the dividend tax credit approach is doubly objectionable because not only does it treat corporate tax as a partial repayment of personal tax but gives credit even where no corporate tax has been paid.

13. Full integration is difficult to achieve with a dividend tax credit; and its lack can, in a sense, be said to encourage "dividend stripping", i.e. the tax-free withdrawal of corporate surplus. This problem became so serious at one point that it led to the reintroduction of ministerial discretion in our statute (section 138A(1) and also was a prime motivating factor in establishing the Royal Commission on Taxation in 1962.

IV. *Proposed Integrated System Using Gross Up and Credit Mechanism—Advantages*

1. Permits accurate measurement to attain policy objective, i.e. credit for Canadian corporate taxes paid.

2. Flexible from a policy standpoint; i.e. "flow through" of tax incentives at corporate level and/or foreign taxes can be passed on in whole or in part—permits selective regulation for fiscal purposes.

3. Easily accommodates to a "time limit" rule for creditable tax, because the source of the dividend is an integral part of this system; i.e. creditable tax is determined at the corporate level. Therefore, with a high degree of integration, if the revenue drain necessitates a time-limit rule because the system contemplates rebates, it can be accomplished; alternatively, if revenue drain is not a problem, time limit can be eliminated.

4. Provides rebate to low-rate taxpayers.

5. Reflects accurately the impact of the progressivity of our tax system; i.e. the relief is in balance and proportion to the progressive personal tax rate—a truer form of integration.

6. Flexible in the sense that different levels of integration could be extended to different quantums and categories of corporate income, i.e. full integration on first $50,000, half integration on remainder. Useful fiscal instrument.

7. Accommodates the White Paper proposal to "flow through" portion of foreign withholding tax.

V. *Proposed Integrated System Using Gross Up and Credit—Disadvantages*

1. Relatively complex in concept and application; requires record keeping at corporate level and dissemination of additional information to shareholders.

2. Can be said to discriminate against Canadian companies operating abroad either through branch or subsidiary (no flow-through of foreign taxes paid); no automatic "flow-through" of the benefit of lower rate of foreign taxes. (However proposed "flow-through" provision for up to 15 points of foreign tax can largely overcome this.)

3. Takes away at the shareholder's level all or a portion of the benefit of tax incentives granted at the corporate level, depending on the degree of integration.

4. As is the case with the dividend tax credit, does not flow through in a tax-free manner capital gains realized by a corporation (net of any capital gains tax paid by the corporation).

5. More visible, and therefore more susceptible to pressure from foreign governments to extend benefit of credit to foreign shareholders.

6. May not permit continuation of flow of tax-free intercorporate dividends —an impediment to intercorporate commercial transactions. (This is essentially a problem of deferral—in systems terms, tax-free intercorporate dividends could be accommodated.)

*Comments*

A prime concern of the Committee in its examination of the integrated system of credit proposed in the White Paper was the effect on Canadian investment abroad (also discussed in the Chapter 6).

The Committee examined a number of examples of the after-tax effects of the proposed system on income of Canadian residents from investment abroad through foreign subsidiaries. While it is found that examples can be constructed which indicate an adverse bias, the Committee's examination of results on what it considers to be reasonable assumptions of typical situations indicate to it that the proposed system taking into account the "flow through" proposal for foreign tax (6.27) should not impair Canadian incentive to invest abroad.

It is the Committee's understanding that generally speaking foreign earnings would be at no disadvantage from a creditable tax standpoint until dividend payouts were in excess of 65% of total earnings and foreign earnings were equal to Canadian earnings of a Canadian company. Where dividend payouts were not in excess of 50% of total earnings, foreign earnings could be in excess of two times Canadian earnings before dividends would lack full creditable tax backing.

The Committee's main concern with the integrated system proposal is with the general "flow-through" consequences of the procedure, which has several manifestations.

The different degrees of integration proposed in the White Paper would produce a number of inter-corporate anomalies. The Committee believes its recommendation to have half integration for dividends from all Canadian companies (other than the exception for a limited level of taxable income from closely held companies to which full integration would continue to be available) would eliminate some of the anomalies.

Difficulty would arise in related groups of companies wishing to put funds in various subsidiaries to their most productive use. We believe this difficulty could be overcome by providing for dividends to pass tax-free among affiliated companies where the shareholdings represented a substantial direct as opposed to a portfolio investment. An interest of 25% or more would be consistent with the level required for the designation of controlled foreign corporations.

However, in some instances where there was no creditable tax, a dividend should give rise to a basis adjustment of share valuation in order to prevent a double benefit in the event of a loss on the disposition of the shares. This is a problem resulting from introduction of capital gains tax and allowance of capital losses and would exist under a dividend tax credit regime as well as with the proposed integrated system.

The Committee believes this approach also points the way to overcoming a major problem created under the proposed integrated credit system of foreign or Canadian source corporate income flowing through Canadian holding companies owned by non-residents.

A main manifestation of the "flow-through" problem concerns the basic policy question of whether Canadian corporate level tax incentives (depletion, capital cost allowance, etc.) should flow through to Canadian resident shareholders. In the Committee's view, these incentives should flow through. Incentives to Canadian business should in principle also serve as incentives to invest in Canadian business. We note that such "flow-through" would go to non-residents virtually unimpeded except for Canadian withholding tax (25% to residents of non-treaty countries and 15% to 10% to residents of treaty countries, depending upon the degree of Canadian ownership). It should also be noted, however, that the tax laws of the countries of some non-resident recipients would reduce the apparent benefits of such "flow-through". In his final appearance before the Committee, the Minister of Finance indicated that a "flow-through" mechanism could be devised.

Solutions to the incentive "flow-through" problem which the Committee feels would have merit would be to: (1) permit the amount by which a dividend exceeds creditable tax, due to a corporate level tax incentive, to be tax-free in a Canadian resident shareholder's hands, and apply it to reduce the cost basis of his shares so that capital gains treatment would be applicable when the shares were sold, or (2) permit such portion of the dividend to be taxed as though it were a realized capital gain.

The Committee would not propose "flow-through" of dividends not bearing creditable tax as a result of any incentive or tax preference designed to permit the growth of small business, since the clear purpose and intent of such incentive would be to keep such incentive at work in the small business.

That "flow-throughs" can be selective under an integrated credit system indicates to the Committee its usefulness as a flexible fiscal tool to promote economic growth in appropriate situations.

Two other points remain to be discussed in connection with the proposed integrated tax credit system.

1. The problem raised for private utilities companies.

2. The problem of corporations which do not fit the definition of a "personal corporation" under the *Income Tax Act* but are nevertheless essentially "incorporated pocket books" used to hold share investments. The present tax-free "flow-through" of intercorporate dividends permits such companies to be used to defer personal tax on dividends from Canadian corporations. If the Committee's recommendations are adopted for half integration as a general rule (which would call for a 33⅓ per cent tax rate on inter-corporate dividends) the "pocket book corporation" problem would remain unresolved.

The private utilities problem, which does not arise directly from the integrated credit system, is dealt with later in this chapter.

**In connection with the "incorporated pocket book" problem, the Committee recommends that dividends received by a closely held corporation from a widely held corporation be taxed in full unless the closely held corporation was controlled by a widely held corporation or by a non-resident. However, all of the tax paid on such dividends by the closely held corporation should be fully creditable.** The intent of this suggestion would be to put the shareholder of the "incorporated pocket book" close to the same tax position as though he had received the dividends directly.

The foregoing possible solutions to problems of the integrated credit system brought to this Committee indicate that the proposal is adaptable and workable, but at the price of considerable complexity.

*Recommendation*

**Despite the complexity the Committee feels the advantages of the integrated credit system warrants its implementation providing the suggested solutions to the problems outlined above prove workable upon full study by government or that the government finds alternative solutions to these problems. With these provisos, the Committee recommends adoption of the integrated system of allowing credit at the personal tax level on corporate source income of Canadian residents.**

## 4.19 CORPORATIONS

*White Paper Proposal*

One set of rules for closely held corporations and another for widely held.

*Recommendation*

**Our general recommendations in respect of capital gains and integration would, we believe, remove the main tax distinctions between the two types of corporation to which objections have been voiced. Our recommendation for the continuation of the distinction results mainly from the intention to permit the benefits of full integration to apply to the first $50,000 of taxable income of certain closely held corporations.**

## 4.20-4.23—CLOSELY HELD CORPORATIONS

*White Paper Proposals*

1. Election to be taxed as a partnership if:

(a) all shareholders sign the election;

(b) it is clear what portion of the profits each shareholder will receive (which would usually mean that there is only one class of shares);

(c) all shareholders are individuals resident in Canada or corporations incorporated in Canada;

(d) any Canadian corporations holding shares have the same fiscal year-end as the corporation.

2. Other closely held corporations taxed at 50%, but when profits distributed, Canadian shareholders would receive credit for full corporation tax paid. This would apply to both cash and stock dividends.

3. For the shareholder to receive the credit, corporation would have to pay out dividends within 2½ years from end of corporation's taxation year.

*Comments and Recommendations*

1. The Committee believes that the partnership option is a useful device, and we should like to see it extended as far as is consistent with our general recommendation for half integration. We appreciate that our other recommendations on integration may require the proposal to be abandoned as far as corporation-individual elections are concerned, except perhaps for small closely held corporations with income under $50,000, for which full integration would be available, since the use of the option is tantamount to full integration.

2. As already stated in our general recommendations, the Committee recommends that full integration be permitted up to $50,000 of taxable income annually for Canadian closely held corporations (or an associated group of closely held Canadian corporations that does not include a widely held corporation) controlled by Canadian residents.

3. There have been many objections in the briefs to the 2½-year rule for creditable tax. The main objections are as follows:

(a) Some corporations are unable to distribute earnings because of existing commitments.

(b) For public corporations with a large number of shareholders, continuous distribution of its shares to avoid stale-dating of creditable tax would raise difficult problems.

(c) Even for private corporations the process, while feasible, would be awkward.

(d) The time allowed is too short.

It seems to the Committee that the scope for the abuse of "selling" creditable tax back and forth across the border and the possibility of a heavy demand on government revenues for credit in a short period of time —which were the main reasons for having a stale-dating provision—would be considerably limited by our recommendation for half as opposed to full integration as a general rule, and would not present a serious problem.

**We recommend that if the integrated credit procedure is adopted, the time period be dropped.**

## 4.30-4.31—LOW CORPORATE RATE

*White Paper Proposals*

Low rate on first $35,000 of income to be eliminated by stages over five years.

*Comments and Recommendations*

The White Paper's proposal to eliminate the low rate of tax for the first $35,000 of corporate income has given rise to more popular reaction than perhaps any other.

These manifestations of popular feeling, and in particular the misconceptions arising out of the proposal, seem to emanate partly from the lack of complete understanding that the low rate, and its proposed removal, affect only small *corporations* and not all small *businesses*. The fact is presumably known, but has been lost sight of in the anxiety engendered by the proposal.

This misconception may even have begun as far back as 1949, when the low rate (then 10% on the first $10,000 of corporate income) was introduced by the Hon. D. C. Abbott, Minister of Finance, in his budget speech of March 22. In introducing the amendment Mr. Abbott referred consistently to "small businesses", as shown in the following passage from the speech:

> The house will at once recognized this as tax relief for small businesses and will, I trust, be heartily in accord with the policy. Our country as a whole owes a

great deal to the small family type of business. They have to struggle along, grow and develop in competition with large and well financed corporations whose activities may be nation-wide. My own belief is that small businesses should be encouraged and it seems to me that a useful way to do this is to lower the tax and take less out of the funds they need for growth and expansion.

He went on to say that all corporations, regardless of size, would benefit, but that the rate of tax on profits in excess of $10,000 would be increased; the net result would be a decrease in tax burden for corporations with profits less than about $77,000 and greater tax thereafter. At the same time, the government introduced the first dividend tax credit, also at 10%, thus removing the double taxation of profits of companies with profits of less than $10,000.

The White Paper, in paragraph 4.9 states that one of the reasons for the original enactment of the low rate was that the collection of two taxes on profits flowing through small corporations "put them at a disadvantage relative to the unincorporated business with which they competed". The low rate, plus the dividend tax credit was of course intended to offset this disadvantage, and it is ironical that the result has been to place the incorporated small business at a tax advantage as compared with the unincorporated business.

As is pointed out in the White Paper (para. 4.18) a taxpayer whose business can be incorporated can earn up to $40,000 before the marginal rate exceeds 21%, whereas the unincorporated taxpayer can earn only $5,000 before his marginal rate exceeds 21%. The incorporated businessman can often ensure that his business income need not be exposed to current personal tax. Only when he withdrawns the money from his company does the personal tax become payable. The unincorporated businessman has no such deferral privilege.

This method of achieving the encouragement of small business has proved, therefore, to be highly inequitable as between incorporated and unincorporated taxpayers. In addition it led to a great deal of abuse because the tax saving led to the formation of many companies where one would have done equally well, and to the splitting up of large businesses into a number of small companies. The measure of the government's inability to prevent this within the scope of existing law, and its desperate need to do so, was illustrated when in 1963 it resorted to the use of ministerial discretion by the enactment of section 138A (2), giving the Minister of National Revenue power to deem companies to be associated unless he was satisfied that not one of the main reasons for their separate existence was the reduction of tax. The legislation has been successful to a large extent, even though the fact that it lays on the taxpayer the almost impossible burden of proving a negative may well have penalized genuine business arrangements. In any event, it is generally agreed that ministerial discretion is not a good way of imposing taxation.



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One of the great weaknesses of the low rate of tax as at present given is that it is available to small corporations whether or not the tax saved is used in the business; it can be used for other purposes, or it can be distributed to shareholders. If its main purpose is to help small business to find capital, the lack of any check on its use can entirely negate that purpose. Another weakness is that it helps many corporations which do not need help—the large corporation with a solid financial structure and the small corporation with wealthy shareholders.

The Committee is of the opinion that healthy small businesses are essential to the economic well-being of Canada. As previously indicated in this report the Committee regards economic growth as having prime priority at this stage of Canada's development. Only by putting economic growth in such a position among national objectives can the wherewithal be generated to produce the social programmes for the improvement of the living standards of millions of Canadians.

The strength of this viewpoint was recognized early in the White Paper debate by the Minister of Finance who, in his appearance before the Committee on August 5, 1970, indicated that his special departmental committee on the small business problem was making progress toward a comprehensive proposal directed to assisting small Canadian businesses through the tax system. A number of very useful suggestions for limiting the scope of abuse of the present small business provisions, so that assistance would go only to really "small" businesses, and to those with poor access to funds needed for expansion, have been presented to us. These have been referred to the Minister's committee for study.

The Minister has told the Committee that he is seeking a system to give assistance to small businesses, whether or not incorporated. The Committee wholeheartedly approves, but wishes to make it clear that if this should prove technically unworkable it would still regard it as essential that incorporated small businesses should continue to receive assistance.

There are three main interrelated aspects of the problem of giving tax relief to small businesses: first to what size of business the relief should be given; second the amount of such relief; and third its form.

On the first question, the Committee believes that the tax relief should not be given, as under the present system, regardless of the size or the needs of the business. The tax relief should be confined to small businesses, or alternatively a mechanism should be devised by which the income of a business over a certain figure would be subject to an increasing incidence of tax until the tax relief has been recaptured. Thus the relief should be growth-oriented. The latter approach, using a graduated rate scale, would make unnecessary a complex definition of a small business. The Committee has come to the conclusion that the test should be one that best indicates the need of the business for funds for financing modernization, expansion and growth.

There appears to be two possible major ways to measure the size of a business: by its "net worth" or by its earnings.

Net worth could be measured by the amount of contributed capital, shareholders' loans, retained earnings and so on. The advantage of this approach is that it measures, in effect, what should be measured, namely the assets upon which the ability of the business to obtain funds for expansion depends.

The earnings test could be applied in two ways: one by taking profits before taxes, before remuneration paid to proprietors and shareholders and before capital cost allowance deductions; and the other by taking taxable income, as under the present law.

The reason for considering the first of these two earning tests is that the present law has revealed a loophole by which taxable income of a corporation can be kept below the $35,000 to which the low rate of corporate tax applies, by arranging remuneration to proprietors and shareholders, and other deductions. However, the Committee believes that this method would be legislatively complicated, as otherwise it could lead to inequities. For example, in many small businesses employees are permitted, and even encouraged, to acquire shares of the corporation, and it would be unfair to add their wages or salaries to the amount of "earnings" to be considered in this context.

*Recommendations*

Either the net worth or the earnings method would be satisfactory provided that they were mechanically feasible and could be evenly applied in all situations. But the taxable income measurement appears to the Committee as the most appropriate.

If this test is decided upon, and failing a more acceptable plan being formulated by the Minister's committee, **we recommend that the small business incentive be available to a business with taxable income of up to $35,000; that when this figure is passed the relief should be phased out under a "notch" provision so that it would cease altogether when taxable income reached $105,000; and that the maximum benefit in any year should be $10,000.**

**To assist in the limiting of the incentive to situations where it is needed, we also recommend that widely held corporations, subsidiaries controlled by a widely held corporation and corporations or businesses not controlled by residents of Canada should be excluded from the relief.**

We have considered several proposals which were outlined to us in principle, for ways of providing financial assistance to small growing businesses, such as a capital formation tax credit, and acceleration of the deductibility of some outlays and creation of special reserves, but we do not feel that we should make any recommendations on the form which the tax relief should take, in view of the study in depth being carried out by the Minister's committee.

## WIDELY HELD CORPORATIONS

### 4.36

*White Paper Proposals*

1. The government wishes to reform the dividend tax credit and proposes to replace the existing credit with a system giving Canadian shareholders credit for one-half the Canadian corporation tax paid by the corporation on profits from which the dividend is paid.

### 4.40

2. No credit for foreign corporation taxes paid, but corporations receiving income from other countries would pass through to shareholders credit for 15 percentage points of withholding tax levied by those countries on the income received.

*Recommendations*

**1. Approved.**

**2. Approved. This proposal is discussed generally in the introduction and again in Chapter 6, "Taking International Income".**

### 4.43 DEFINITIONS

*White Paper Proposals*

1. All corporations with shares listed on a prescribed Canadian stock exchange on the day the White Paper was published would be deemed to be widely held.

2. All corporations subsequently listing their shares on these exchanges would become widely held on the day on which the shares were listed.

3. Corporations which could meet specified tests concerning the number of shareholders and the number of shares held by them could elect to be classified as widely held.

4. The Minister of National Revenue would have the power to designate other corporations as widely held if they met certain tests relating to number of shareholders, dispersal of shares and public trading in shares. (In practice this would mean that most corporations with shares traded "over the counter" would be widely held.)

5. Once widely held, always widely held.

6. Only corporations incorporated in Canada would be eligible to be treated as widely held.

*Comments and Recommendations*

Our general recommendations with respect to capital gains and integration remove most of the important objections taken to the distinction between widely and closely held corporations. There are one or two situations where the retention of the distinction is necessary or would be desirable. It is necessary to retain it to permit full integration, as recommended by us, up to a limited amount of income as assistance for small businesses, and also for determination of who is entitled to the small business relief. The distinction also has implications for the taxation of non-residents on Canadian capital gains, other than those realized on portfolio investment in shares of Canadian widely held companies.

We are concerned about the power suggested for the Minister of National Revenue to designate corporations as widely held, although if our recommendations were accepted the results would not be nearly as serious as under the original proposals. Our concern is that a company might be designated without prior advice and warning.

**We therefore recommend that some mechanism be devised by which companies could be advised of the Minister's intention to use his power and be given an opportunity for hearing and appeal.**

**We also recommend, in connection with the rule that once a corporation is widely held it is always widely held, that provision be made for a widely held corporation to be able to revert to closely held status where it became closely held in fact if not by tax definition.**

## CANADIAN SHAREHOLDERS OF FOREIGN CORPORATIONS

### *White Paper Proposals*

**4.46**

1. No credit to Canadian individual shareholders of foreign corporations for corporate tax paid by those corporations.

**4.47**

2. No credit to Canadian corporations which have a portfolio investment in foreign corporations for the tax paid by those corporations.

**4.48**

3. Credit for Canadian corporations which have a controlling interest in foreign corporations, for corporation tax paid by those corporations.

### *Comments and Recommendations*

1. **Approved.** However it has been brought to the Committee's attention that there are certain foreign corporations which are resident in Canada and whose Canadian shareholders now enjoy the benefit of the dividend tax credit. If an integrated tax system is introduced and the first proposal above is also implemented, the result would be unfair to such shareholders. The Committee of course agrees that as a general rule credit against personal taxes should not be given to Canadian residents for corporation tax paid by foreign corporations which are not resident in Canada. The same rule should apply to foreign corporations which in future become resident in Canada, since we see no reason why such corporations should not incorporate a Canadian subsidiary. **But for foreign corporations resident in Canada when the reforms are implemented, we recommend that they be**

**given a special status and be treated as Canadian corporations subject to all the tax rights and obligations of a Canadian corporation and that Canadian shareholders continue to receive credit for Canadian corporation taxes paid.**

2. and 3. These questions are discussed in our comments on Chapter 6.

## 4.49-4.50—FOREIGN SHAREHOLDERS OF CANADIAN CORPORATIONS

*White Paper Proposal*

No credit for foreign shareholders for tax paid by Canadian corporations.

*Comments*

The Committee understands that this does not contemplate a change from the present situation, and **affirms the proposal.**

## INTERCORPORATE HOLDINGS

*White Paper Proposals*

**4.56**

1. Closely held corporation treated exactly like an individual shareholder in receiving credit for corporate tax.

**4.57**

2. Widely held corporation receiving dividend from a closely held corporation would be taxed on the dividend in the same way as on other income (gross up and credit). Would thus be tax-free if paying corporation had enough creditable tax.

**4.59**

3. Special rate of 33⅓% applied to dividends received by one Canadian public corporation from another. Rate would also be applicable to capital gains realized by one such corporation on the sale of shares of another.

**4.60**

4. No refund to pension plans and other tax-free entities of corporate tax paid by corporations from which they receive dividends.

**4.61**

**4.62**

5. Open-end and most closed-end mutual funds would be widely held corporations, so that shareholders would receive dividends flowing through the fund subject to the same tax as though received directly. One exception—where dividends from a closely held corporation are routed through a mutual fund, taxed as though earnings had been in a public corporation.

**4.62**

6. Mutuals would be enabled to make special distributions to shareholders which would be treated like a gain on the sale of a Canadian public corporation.

*Comments and Recommendations*

1., 2. and 3. Our general recommendations on the integrated tax system and the problems under these proposals have been dealt with in the introduction to this chapter. Among these recommendations is one that dividends should pass tax-free among affiliated corporations.

4. The Committee agrees that no refunds should be given to pension plans and other entities which have paid no tax. We also recognize that on distribution, an individual taxpayer would bear more tax on capital gains realized in a tax-free pension fund that if he had invested directly in corporate shares, but we believe that the element of deferral arising out of the fact that contributions to pension plans etc. are deductible when made outweighs this consideration. **The Committee agrees that no incentive, in addition to a tax-free status, is necessary or desirable.**

5. and 6. The Committee understands that direct discussions are taking place with the government in connection with mutual funds. **The Committee therefore states only that it supports the common view of the government and the funds that the tax results should be as close as possible to being identical with the results that would obtain if members had held the assets of the fund directly.** We foresee that this principle might also entail some restriction on the mutual funds in which pension or retirement plans can invest, in order to avoid circumvention of the proposed 10% foreign asset limit on investments which the Committee has approved.

## 4.63-4.65—ELECTRIC, GAS OR STEAM UTILITIES

*White Paper Proposal*

No credit to shareholders for corporate tax paid, since federal government proposes to amend legislation so that all taxes on these companies are turned over to provinces.

*Comments*

The private utilities problem is not a direct consequence of the integrated tax credit proposal but of a separate proposal at paragraphs 4.63-65 of the White Paper, under which all the tax collected from such companies would be remitted to the provincial governments. At present, 95% is turned over to the provinces and in some cases is passed back to the companies for rebate to power customers.

In the Committee's view, these companies and their shareholders have a valid objection. These companies do pay Canadian federal tax and their shareholders should not be discriminated against because of a federal-provincial arrangement. The Minister of Finance, when appearing before the Committee, indicated credit could be allowed if the provinces agreed to the federal government's retaining sufficient tax to cover the shareholders' credit. This, the Committee believes, would be the appropriate procedure, and we would recommend that the federal government seek such an arrangement with the provinces. The Committee understands, however, that such an arrangement would not cover all private utility situations, such as those where long-term power contracts contemplate continuance of the present situation. Special federal-provincial attention will have to be given to ensure a just result.

*Recommendations*

**For the reasons discussed in our general recommendations on the integrated tax system, we recommend that if this is implemented, the federal government consider, among other methods to safeguard the level of Canadian investment in such corporations, retaining sufficient tax from taxes paid by the utilities to allow credit to Canadian shareholders.**

## 4.66-4.67—FOREIGN CORPORATIONS OPERATING IN CANADA

*White Paper Proposal*

Credit for corporate tax to apply only to corporations *incorporated* in Canada after five-year transitional period.

*Comments and Recommendations*

This question has already been discussed in our comments on paragraph 4.46 of the White Paper.

**The Committee approves the proposal with respect to foreign corporations which became Canadian residents after the implementation of the tax reform proposals. However, in addition to the proposal ror a five-year transitional period in order that foreign corporations now resident in Canada may arrange their affairs the Comittee recommends that because some of them may find it impossible to reorganize in the time, a rule be enacted whereby any foreign corporation resident in Canada for tax purposes on the date of implementation would be given three years to elect to be treated as a Canadian corporation.** Such an election would involve the corporation's taking on all the tax rights and obligations of Canadian corporations.

## 4.68 CO-OPERATIVES, CAISSES POPULAIRES AND CREDIT UNIONS

## 4.69

## 4.73

*White Paper Proposals*

1. For Co-operatives:

(i) Three-year exemption to be withdrawn.

(ii) Patronage dividends now deductible before interest paid, but cannot reduce profits below 3% of capital employed. The percentage would be increased and would be set in accordance with the formula used to determine rate on farm improvement loans—varies with rate paid on government bonds.

(iii) Only interest paid to members on loans and capital taken into account after deduction of patronage dividends.

2. For Caisses Populaires and Credit Unions:

To be treated like other co-operatives, and be given deduction for doubtful debt reserves and market liquidity reserves comparable to those allowed to banks.

*Comments*

Under the present system, a co-operative is exempt from tax for the first three years of its existence. In computing its income for tax purposes, it may reduce its profits by the amount of patronage dividends declared, but may not reduce its taxable income below the amount by which 3% of the capital employed in the business exceeds the interest, deductible in computing income for the year, paid on borrowed moneys (other than moneys borrowed from a bank or credit union). The differences under the White Paper proposals would be that (a) the three-year exemption would be withdrawn; (b) though patronage dividends would still be deductible, the 3% limit would be raised; (c) and only interest "paid" to members would be deductible.

The Committee was assured by a government witness that such interest would not necessarily have to be "paid" in cash; it could be credited to members, but would be deductible only if the amount so credited was included in the income of members for tax purposes.

The two things to which the co-operatives basically object are: first that there would be, under the proposals, an additional element of double taxation, in that an increased portion of the co-operative's income may be taxed both in the hands of the co-operative and in those of the members of producer co-operatives; and second that the proposals would reduce the cash flow now enjoyed by the co-operatives, in that some part of the interest due to members would have to be paid in cash, to enable the members to pay the income tax on the amounts included in their incomes.

The Committee does not see the proposals as entirely consistent with the integration proposals for other corporations. The double taxation alleged in the case of producer co-operatives is different from that which exists for other incorporated businesses and their shareholders, because the members' tax level in the case of producer co-operatives is really a measure of extra profit in the members' principal business.

We believe, however, that the main issue is whether the proposals produce a reasonable result in comparison with the taxation of other forms of business organization. The proposals would undoubtedly result, in many cases, in some more tax being paid than is now being paid.

*Recommendations*

**The Committee recommends that the basic principle to be followed should be that co-operatives, caisses populaires and credit unions should have no tax advantage in the tax system but that adequate provision be made to ensure that the operations of such organizations are not unfairly hampered and to ensure that they do not suffer a tax disadvantage.**

**With respect to the White Paper proposals:**

1. **We approve the withdrawal of the three-year exemption now applicable to co-operatives.**
2. **We approve the proposal to increase the percentage of capital employed on which corporate tax is payable, and recommend that half-integration apply to that portion of any patronage dividends thereafter paid which is taxable in the hands of the member and which represents taxed earnings of the co-operative.**
3. **We approve the proposal that only interest paid to members on loans and capital be taken into account after deduction of patronage dividends. We interpret "paid" to include credits to a member's account.**
4. **We approve the proposals to allow Caisse Populaire and credit unions to make deductions for doubtful debt reserves and market liquidity reserves comparable to those allowed to banks.**
5. **Co-operatives which meet appropriate criteria should be eligible for assistance as small businesses. Small business incentives are discussed earlier in this chapter.**

## STARTING THE SYSTEM

**4.74-4.79**

*White Paper Proposals*

Because capital losses would be fully deductible on disposal of the shares of a closely held corporation, special transitional arrangements affecting those corporations would be needed:

1. On distribution of undistributed income on hand at start of system, tax of 15% levied on corporation. Distribution would be treated as return of capital to shareholders and would reduce cost of shares for capital gain purposes.

2. To secure tax on recapture of depreciation, part of tax paid by the corporation would be treated as non-creditable until that amount has been collected that would have been taxable under the present system.

*Recommendation*

1. **Approved.**

2. *Comments:*

The Committee found the proposals in this area some of the most difficult to grasp.

The White Paper gives an elaborate example in paragraphs 4.75 to 4.77, but the concept does not seem to us to be as clear as the authors intended, and perhaps because of this a great deal of criticism has been expressed.

The Committee appreciates the purpose of the proposals, based on its understanding that the introduction of a tax on capital gains, with its corollary of the writing off of losses against other income, would in a corporate situation make possible a double write-off against income of the decreasing value of a capital asset—once against the income of a corporation and once against the income of shareholders.

Inasmuch as we have recommended that only one-half of capital losses be deductible, and only from capital gain (except to the extent of $1,000), we assume that the problem which the proposal is intended to remedy would now be no greater than it would be for widely held companies, to which the proposal was not intended to apply.

*Recommendation*

**We therefore recommend that the proposal be dropped.**

# CHAPTER 5

# Business and Property Income

## 5.4-5.8—"NOTHINGS"

### *White Paper Proposals*

1. New depreciation class which would sweep up all "nothings" and give deduction of 10% of book value per annum.

2. Since goodwill would be included, special rules for sale of goodwill: when sold in first year of new system, 40% of proceeds taxable 45% in second year and so on, taxable portion increasing by 5% each year until the 13th, when 100% of proceeds become taxable. If business not in existence at start of system, all proceeds taxable whenever sale made.

### *Comments*

1. The Committee approves the government's objective of eliminating "nothings" from the tax system.

2. However, the inclusion of goodwill in the "nothings" gives rise to difficulties, and this proposal for taxing the proceeds of the sale of goodwill has evoked strong opposition from taxpayers.

The government justifies its proposals on the grounds that (a) the price receivable for goodwill will rise because the cost will be depreciable to the purchaser, and (b) goodwill is largely current in nature, arising out of continuing efforts to preserve and increase it. The Committee feels that the government might also have argued, in support of its position, that the concept of depreciating acquired goodwill is more and more becoming required by regulatory bodies for financial statement purposes. While the Committee cannot offer a professional opinion as to how much the value of goodwill would increase because it would be deductible, it seems obvious and logical that the government's assumption on this is correct.

The Committee has also examined the criticism that the proposal would have the effect of retroactively taxing goodwill. Even given our conclusion that the value will increase upon becoming deductible, and our general acceptance of the government's assumption that goodwill must be maintained by continuing efforts, taken together with the fact that the taxation of goodwill would be introduced in stages, we fear that there might still be some retroactive taxation of goodwill existing on valuation day.

Another criticism which relates to the transition into taxing goodwill is that people who had purchased goodwill—say in a professional partnership —prior to the introduction of the new system, and would be selling it on retirement at a predetermined contractual amount, would be unfairly treated. In many cases the sale agreement could be amended so that the selling price would be increased to counterbalance the tax results, but there appears to be no completely satisfactory answer to the unfairness where the parties concerned cannot themselves agree to eliminate it.

A frequent and strong recommendation put forward, mainly to prevent the taxation of existing goodwill (it being assumed that the value would not increase by virtue of deductibility), was that goodwill should be valued at the start of the system and that any gain or loss should be taken into account for tax purposes only when realized—that is, that goodwill should be treated like any other non-depreciable asset.

The Committee finds merit in this alternative, but as a practical matter this approach would, as we understand it, have the effect of requiring the separate valuation of each tangible asset of a business at the beginning of the system, in order that the goodwill factor might be isolated.

The Committee approves the objective of this proposal since it would place the purchaser of goodwill on a similar footing to the creator of goodwill who is able to deduct most if not all the expenditure—wages, advertising, etc.—out of which the goodwill arose or is sustained.

*Recommendations*

**Providing any retroactive effect of taxing a vendor on goodwill existing on valuation day can be removed, the Committee approves the proposal to permit depreciation of goodwill by purchasers. We also recommend that the Minister of National Revenue be prepared to approve changes in the valuation of goodwill included in existing sale agreements.**

We provide below an illustration of one way in which this might be done.*

*In our illustration goodwill on valuation day would be automatically figured by taking three components; the proceeds, the number of years the sale took place after valuation date and an established table. Recognition is given in the method for acquired goodwill prior to Valuation date. This suggested method would not require valuation, would have no retroactivity and no creditable tax problem.

On valuation day tax values of the equity of all closely-held corporations and unincorporated businesses would be market values. Goodwill however would be valued at an adjusted cost if, and only if, it had been *acquired for a* consideration during the ten years prior to valuation day.

Goodwill would be assumed to be an intangible having a life expectancy of ten years. Only if and when goodwill was sold would it be necessary to place a value on it at valuation day. This would be done by time apportionment using a sum-of-the-digits placing greater value on the creation of goodwill than on its maintenance. Recognition would be given for any goodwill acquired for a consideration prior to valuation day.

Losses would be deductible. (See our comments in the Chapter 3 on the limitation of losses).

The purchaser would be allowed to depreciate only goodwill acquired for a consideration after valuation day.

During the transition period determinable tax values and potential tax liability would serve to adjust the price at which shares would be sold so that the effect would be little different from that when assets are sold.

The amount of the proceeds to be included in income would be the appropriate portion of the adjusted proceeds determined by Table I. Adjusted proceeds would be total proceeds less that portion of goodwill acquired, if any, for a consideration during the ten years prior to valuation day determined by Table II.

TABLE I

Proportion of the adjusted proceeds of the sale of goodwill to be included in income assuming the business had been in existence at least ten years. (An appropriate adjusment to the base would be made in the case of businesses in existence less than ten years).

| | |
|---|---|
| Sale in the 1st year following valuation day— | Nil |
| Sale in the 2nd year following valuation day— | Nil |
| Sale in the 3rd year following valuation day— | 6/55 |
| Sale in the 4th year following valuation day— | 10/55 |
| Sale in the 5th year following valuation day— | 15/55 |
| Sale in the 6th year following valuation day— | 21/55 |
| Sale in the 7th year following valuation day— | 28/55 |
| Sale in the 8th year following valuation day— | 36/55 |
| Sale in the 9th year following valuation day— | 45/55 |
| Sale in the 10th year following valuation day— | 55/55 |

TABLE II

Value on valuation day of goodwill acquired for a consideration to be deducted from the total proceeds to determine adjusted proceeds.

| | |
|---|---|
| Acquired in the 10th year prior to valuation— | 3/55 |
| Acquired in the 9th year prior to valuation— | 6/55 |
| Acquired in the 8th year prior to valuation— | 10/55 |
| Acquired in the 7th year prior to valuation— | 15/55 |
| Acquired in the 6th year prior to valuation— | 21/55 |
| Acquired in the 5th year prior to valuation— | 28/55 |
| Acquired in the 4th year prior to valuation— | 30/55 |
| Acquired in the 3rd year prior to valuation— | 45/55 |
| Acquired in the 2nd year prior to valuation— | 55/55 |
| Acquired in the 1st year prior to valuation— | 55/55 |

*Examples*

Assume the following:

(a) Goodwill acquired seven years before valuation-day ........ $20,000

(b) Business in existence more than ten years.

1. (a) Proceeds of sale of goodwill 2 years after valuation-day ........ $30,000

| | |
|---|---|
| Proceeds | $30,000 |
| Less value of acquired goodwill (Table II 15/55 of $20,000) say | 6,000 |
| Adjusted proceeds | $24,000 |
| Included in income (Table I) (sold within 2 years) | Nil |

(b) Proceeds of sale of goodwill 7 years after valuation-day ........ $30,000

| | |
|---|---|
| Adjusted proceeds (as above) | $24,000 |
| Included in income (Table I) (28/55 of $24,000) say | $12,000 |

2. Proceeds of sale of goodwill 4 years after valuation-day ........ $15,000

| | |
|---|---|
| Proceeds | $15,000 |
| Less value of acquired goodwill (Table II 15/55 of $20,000) say | 6,000 |
| Adjusted proceeds | $ 9,000 |
| Included in income (Table I 10/55 of $9,000) say | $ 1,700 |

| | | |
|---|---|---|
| 3. | Proceeds of sale of goodwill 6 years after valuation-day | $ 5,000 |
| | Proceeds | $ 5,000 |
| | Less value of acquired goodwill (Table II 15/55 of $20,000) say | 6,000 |
| | Adjusted proceeds (loss) | $(1,000) |

## ENTERTAINMENT AND RELATED EXPENSES

### *White Paper Proposals*

### 5.9-5.10

1. No deduction for (a) entertainment expenses, (b) attending conventions or (c) belonging to social or recreational clubs.
2. For corporate taxpayers, taxes due because of non-deductibility not creditable.

### *Comments*

There has been universal condemnation in the briefs of the White Paper proposal to deny deduction to business of all entertainment expenses and the expenses of attending conventions. It has been pointed out that the prohibition would hurt not only the businessmen who would be unable to deduct such expenses but also those businesses which provide the facilities for entertainment and conventions.

### 1.(a) *Entertainment Expenses*

It has been repeatedly stated in the briefs that the denial of all entertainment expenses to business is completely contrary to the basic principle that bona fide business expenses are deductible in computing profit. It should perhaps be noted that such disallowance is not an impossible or unprecedented measure; that step was taken in Britain in 1965, since when all entertainment expenses except for "overseas customers" have been disallowed.

Witnesses stated over and over again that a great deal of business is transacted over lunch or dinner or a drink; that for many professional people personal contact, which usually involves entertaining, is the only form of business promotion open, since they are forbidden by the rules of their professions to advertise in the ordinary way; that small businessmen cannot afford more expensive forms of advertising such as radio or television, and must therefore entertain; that the more conventional forms of advertising are not appropriate to all types of business; and that denial of the deduction would put Canadian businessmen at a disadvantage with foreign businessmen with whom they are competing and who are allowed to deduct such expenses.

There is, however, recognition of the fact that, as the Minister of National Revenue said in his appearance before the Committee, there has been abuse in this area by a relatively small number of taxpayers, mostly arising out of charging personal expenses as business expenses, and that some tightening up is therefore needed. Most taxpayers feel that this is up to the Department of National Revenue, and that the *Income Tax Act* contains provisions which if properly used are adequate to control that abuse. These provisions are, of course, those that apply to all business expenses, which to be deductible must be incurred for the purpose of gaining or producing income (section 12(1)(a) of the *Income Tax Act* and be reasonable in the circumstances (section 12(2)).

Some briefs have urged that rules or guidelines should be given indicating what entertainment expenses should be allowed, and what "reasonable" means in this context. Both would be extremely difficult to do, but it is obvious that some sort of "policing" must be done and that there must be rules governing it.

It is useful here to consider the rigid rules employed in the United States. Briefly, taxpayers are required to keep records of all entertainment expenses incurred, and must establish:

(i) the amount of each separate expenditure;

(ii) the date the entertainment took place;

(iii) the name, address and location and the type of entertainment;

(iv) the reason for the entertainment or the nature of the business benefit derived or expected to be derived, and the nature of the business discussion or activity that took place; and

(v) the occupation of, or other information about, the person or persons entertained, including name, title or other designation sufficient to establish the business relationship with the taxpayer.*

Where entertainment expenses can be shown to have had a genuine business purpose, there is no justification in denying their deduction. To deny them is to say, in effect, that there are certain business expenses that may not be deducted in computing profit; the government, in its proposed treatment of "nothings", has shown itself anxious to see that there are no non-deductible business expenses, and there should be consistent treatment. So long as adequate measures are taken to guard against abuse, and the onus is placed on the taxpayer to prove the genuine business nature of his claims, deduction should be allowed.

1.(b) *Convention Expenses*

*Comments*

There can be no doubt that business and professional conventions serve a most useful purpose in bringing people together, stimulating interest, giving participants an opportunity to hear experts in their field and generally advancing the education and expertise of those attending. There is, un-

*These rules, along with detailed explanations, are set out in *Your Federal Income Tax, 1970 Edition,* issued by the U.S. Treasury.

fortunately, also no doubt that in this area also there has been abuse, when expenses have been claimed for attendance at conventions whose main purpose is social in nature.

Most or all conventions, of course, even the most businesslike "working" conventions, have an element of the social in them, and it could be argued that deductibility should not be complete even for this type of gathering and that some proportion—say 20% of the cost of attending—should be disallowed. Any proportion chosen would be highly arbitrary, since the social element would often vary according to the place where the convention was held; it would naturally be higher if it were held in Nassau, for example, or on a cruise ship, than if it were held in a Canadian city. Again, from there it is only a step to saying that conventions that are mainly social in nature also have a business element, and that some proportion of the expenses of attending them should be allowed. The whole business of apportionment would be extremely difficult from an administrative point of view; and because the rules would necessarily be arbitrary they would be bound to lead to inequities and anomalies, especially in borderline cases.

However, the principles that govern convention expenses should be the same as those governing all business expenses, and where the cost of attending is a genuine business expense it should be allowed.

One suggested solution, though also to some extent an arbitrary one, is to devise some system to separate the two types of convention—business and social. It has been suggested in several briefs that some form of registration of approved conventions should be instituted, by which such conventions could be registered in much the same way as charitable institutions are now registered. The Committee, however, believes that this procedure, while theoretically sound, would not work in practice because of the number of borderline cases that would be involved.

*Recommendations*

**1(a) The Committee recommends that entertainment expenses should continue to be allowed, provided they are properly substantiated by means of detailed records. It is not fair to penalize all businessmen for the excesses of some.**

**1(b) We believe that the solution here is similar to that of the problem of entertainment expenses. We recommend that the expenses of attending conventions, at least up to two a year as at present, be allowed where the taxpayer can show that they had a bona fide business purpose, and where they are "reasonable". The use of the reasonable test would permit disallowance of some part of the expenses where it was considered necessary. We do recommend one restriction; a specific disallowance should be made where a convention is held outside the territorial limits of the sponsoring organization.**

It has come to the Committee's attention that where a businessman attends a training seminar his expenses are not now deductible, and would not be deductible under the White Paper proposals. We appreciate the difficulty of allowing expenses for what is essentially additional education, without going all the way by allowing expenses of attending university. However we do feel that the expenses of attending the refresher-course type of seminar is justified as a business expense, and **we therefore recommend that a deduction for, say, two such seminars in the year should be allowed, or alternatively any three gatherings which are either conventions or training seminars.**

1.(c) This proposal has been dealt with under paragraph 2.11.

2. This proposal would support this tightening up we recommend with respect to unreasonable expenses. **Approved.**

## DEPRECIATION

### *White Paper Proposals*

**5.17-5.19**

1. Person who inherits property would for tax purposes inherit tax cost of property to the deceased—inheritor starts with same depreciation base as deceased had on death.

2. No deduction from other income of a loss from holding property, if that loss is created by capital cost allowance, (or by interest, or property taxes).

3. Separate depreciation class to be created for each rental building costing $50,000 or more. Thus on sale of each building taxpayer would bring into income amount by which depreciation deducted exceeded depreciation actually suffered, (or, conversely would get deduction if he suffered greater depreciation than allowed).

4. Taxpayers would be permitted at any time to write down a class of assets to the aggregate cost of the assets of that type still on hand; and corporations would be required to do this in any year in which control changed hands.

### *Comments and Recommendations*

1. It would follow from our earlier recommendation that there be a deemed realization on death that the inheritor would start with a depreciation base of fair market value.

2. This proposal is designed to prevent excessive deferral of tax, and the problem exists in spite of the fact that there would be, under our recommendations, a day of reckoning when deemed realization took place at death. The Committee recognizes that some form of prevention of excessive deferral is necessary, but also recognizes that in this area there are powerful economic implications. It has been argued in many briefs that the proposal would deter the entrepreneur from investing in housing, and that this would be harmful in that Canada has a desperate need for more houses and other types of living accommodation.

**We approve the proposal that no deduction be given from other income for losses created by capital cost allowance. However, we recommend an exception where the properties are an integral part of a taxpayer's principal business. We also recommend that a deduction be allowed for interest, taxes and other carrying charges on the property, since they are actual outlays of cash.**

**3. Approved in principle, but the Committee feels that $100,000 would be more appropriate.**

**4. Approved.**

## CONSOLIDATED RETURNS

*White Paper Proposal*

**5.22**

No intention to allow consolidated returns, in view of partnership proposal which "would permit groups of corporations to achieve the same result".

*Comments and Recommendations*

The Committee approves of the concept of allowing groups of corporations to report on a consolidated basis for tax purposes on payment of a tax premium. Under the present system the compartmentalization of groups of corporations can produce absurd results, for example where there is a loss in a subsidiary and a profit in a parent company. The partnership option gives a result equivalent to full integration, which would be inconsistent in some cases with the general recommendation for half integration. **To the extent that the partnership option proposal can continue to be used for intercorporate purposes, we recommend its adoption. If it cannot be so used, we recommend that another mechanism for achieving consolidation for groups of corporations be devised.**

## MINING AND PETROLEUM

*White Paper Proposal*

**5.26**

1. *Exploration and Development Costs*

Taxpayers who incur these costs but cannot meet the "principal business" test will be entitled to put their future expenses into an asset class and to deduct annually the greater of (a) their income from mineral properties before deduction of exploration and development expenses of (b) 20% of the net book value of the class.

2. *Purchase and Sale of Mineral Rights*

**5.27-5.28**

Present rule of including cost of acquiring oil and gas rights in exploration and development expenses would be retained, and extended to cover costs of other mineral rights. Proceeds of sale of all mineral rights would be included in income.

Special transitional rule if proceeds would not be taxable under existing rules; treatment similar in principle to that proposed for goodwill (60% taxable in first year, 65% in second, and so on).

3. *New Mines*

**5.29-5.30**

Cost of mining machinery and buildings acquired in connection with a new mine, and before the mine becomes profitable, would be put in a separate class of assets, and would be eligible for write-off as fast as income from the mine could absorb the charge.

**5.31- 5.35**

The present three-year exemption for new mines would be phased out. It would continue until the end of 1973.

4. *Percentage Depletion*

**5.40**

(a) Operators. Depletion allowances would have to be "earned"; for every $3 of eligible expenditures a taxpayer would receive $1 of depletion allowance. There would be a carryover to subsequent years.

**5.43- 5.44**

(b) Non-operators and Shareholders. Allowance would be removed.

**5.45**

Prospectors and Grubstakers. Present exemption from tax of proceeds of sale of mining property would be repealed.

*Comments*

The proposals in the White Paper concerning taxation of the natural resource industries have generated considerable controversy and the Committee feels it incumbent upon it to deal with the matter in rather more general terms than simply accepting or rejecting specific recommendations. Although the specific recommendations in the White Paper may be dealt with individually, it seems to us that one must first adopt a general attitude towards this issue.

The principal debate would appear to be the contest between neutrality and growth. For those to whom neutrality is paramount, such as the Royal Commission, there is little economic justification for a massive programme of tax incentives favouring the natural resource industries over other segments of the economy. These advocates further argue that little economic harm will be done to the natural resource industry if the present incentives are withdrawn. For example, the Royal Commission reached the conclusion that

> 1. if all costs were deducted at some time in the determination of business income from the extraction of minerals and petroleum,
>
> 2. if these costs were written off rapidly to reflect the uncertainty of the return that would be generated by these outlays, and
>
> 3. if the tax treatment of losses was such that risk taking was not discriminated against by the tax system, the only ground for special tax concessions to the extractive industries would be to compensate for the possible discrimination against risk taking in the Canadian capital market. In other words, to the extent that there was a bias in the capital market against risk taking, and to the extent that mineral and petroleum extraction was unusually risky, a deviation from a neutral tax system would be justified to compensate for this bias, assuming that more efficient methods of compensation were not available.*

For those to whom economic growth should be the primary aim of a tax system, the existing incentives designed to stimulate and favour the natural resource industries should be retained or even increased.

The main arguments submitted by the resource industries sector in favour of the continuation of the present tax treatment may be summarized as follows:

(a) Development of Canada's very considerable natural resources is greatly in the national interest. In some briefs it has been contended that Canada's advantages in natural resources no longer exceed those of other countries, though this statement was challenged in other briefs.

(b) Continued development of natural resource industries requires continual infusion of new capital and the tax system must be designed to encourage capital in this direction.

(c) Development of natural resource industries results in regional development.

(d) Our tax system must be at least as attractive as, if not more attractive than, the tax systems of other countries rich in natural resources in order both to attract capital which would normally be directed to the extractive industries and to permit continued successful competition.

(e) Development in the natural resource industries has a risk factor far beyond the normal commercial endeavour.

The Committee believes that these arguments have merit and must be recognized. However, they must also be looked at in the context of the economy as a whole. This involves consideration of the offsetting arguments, so as to find a satisfactory compromise.

(a) There can be no doubt about the truth of this statement—but of course it can also be made with equal truth of many other components of the private sector.

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* Vol. 4, p. 325.

(b) Most industries require continual infusion of new capital, but it is recognized that the necessity is more compelling in the resource industries than in others. The question is not so much *whether* the tax system should encourage capital to flow into the resource industries, for the government proposes to continue to give incentives for this purpose, but *how far* it should go along this path. Many economists contend that the relatively low taxation of these industries has led to a distortion in the overall allocation of resources in the economy, which as a result may well be less productive than it could be. If such a distortion in fact exists, the government's proposals would lessen it.

In this connection the question must also be considered of just how great the need for capital is in the resource industries. It has been stated in some briefs that the return on invested capital is low—lower than in manufacturing industries generally. This could be interpreted as resulting from too much, rather than too little, capital in the industries. If this is to some extent true, further investment resulting from large tax incentives would be self-defeating.

(c) Unquestionably, the resource industries do contribute to regional development, especially in remote regions. It is fair comment, however, that this contribution is limited to the extent that these industries are capital rather than labour-intensive, and that a great deal of the labour that is required must be skilled and usually has to be imported into these regions, so that local people benefit only partially from the development. There is also the point that if a resource becomes worked out or uneconomic, the region becomes more dependent upon government than before. While the contribution of the resource industries to regional development is recognized and appreciated, it may not always be the unmitigated economic benefit that it appears to be.

(d) This argument must be viewed in the light of the fact that Canadian taxes on the resource industries are by no means the highest. It would seem, therefore, that foreign "resource dollars" might just as well go to Canada as to other countries. However, it is important that the tax burden should be no greater on Canadian resource industries than in other tax jurisdictions and that Canadians should not be at a disadvantage because of the system.

(e) The risk factor in these industries is well known and widely recognized. This was one of the main reasons given by the Royal Commission for recommending the retention of some incentive, so preventing reduction, because of the risk element, of investment in the resource industries, from falling below the levels required for an efficient allocation of resources.

The problem therefore may be summed up as that of finding the level of incentives necessary to maintain growth in the extractive industries without producing (i) misallocation of resources or (ii) great inequity in the size of the tax burden borne by these industries compared with others which do not receive the incentives.

Interestingly enough, the economists in this country to a large extent seem to have bridged the gap between the concepts of equity and growth. Many economists have argued that the Royal Commission recommendations and to a lesser extent the White Paper proposals would not only produce a more equitable tax system but would also not appreciably reduce the rate of growth of the economy as a whole. In the White Paper it is conceded that the proposals might cause a reduction in investment in the resource industries.

It seems then that the choice between neutrality and growth is not a question of theoretical tax policy but rather one of judgment. Is Canada prepared to suffer the possibility of a modest reduction in its overall rate of growth and a more significant reduction in the growth and development of its natural resource industries in exchange for the longer-term benefits of a more neutral and equitable tax system? Is it possible for Canada to obtain the benefits of both a more neutral tax system and the maintenance of a high level of growth and development of her natural resource industries?

The Committee believes that subject to the modifications herein proposed, the White Paper proposals will produce a more neutral and equitable system and yet will preserve a sufficiently favourable climate for the optimum development and growth of our natural resource industries. The proposals do not, of course, eliminate all the tax incentives hitherto enjoyed by these industries. The changes would ensure that the resource industries would, after a fair transitional period, begin to bear a greater share of the tax burden, which the Committee believes appropriate.

The Committee had become aware of the growing tax burden imposed on the industries by the provinces, and welcomed the proposal in the letter sent on August 26, 1970 by the Minister of Finance, the Hon. E. J. Benson, to the provincial Ministers of Finance and Treasurers, which was that after the end of the transitional period of automatic depletion the federal abatement to the provinces would be increased by 25 percentage points from the present 10 percentage points, and the deduction for provincial mining taxes would be ended. The effective rate of federal tax would thus be reduced to 25% from 40%.

The Committee has already expressed its view on the general structural proposals in the White Paper which affect the natural resource industries, such as taxation of capital gains and integration, and has suggested changes which would alleviate their impact on those industries as well as on all others.

We endorse the principles: (i) that expenditures may be deducted as fast as there is income to absorb them, on the ground that the fastest possible recovery of capital is necessary in view of the great risk element; and (ii) that depletion should be earned and not be available indiscriminately for all natural resource income. However, the Committee is of the view that the proposals for transition to the earned depletion system are inadequate, in view of the long-term nature of many of the capital investments in the extractive industries.

The Committee also notes that in his letter to the provincial Ministers of Finance and Treasurers, already referred to, Mr. Benson proposed to extend the base on which the depletion allowance may be "earned", to include (a) the costs of new installations in Canada to process mineral ores to the prime metal stage or its equivalent; and (b) expenditures for mine buildings, machinery and equipment acquired in connection with a major extension of an existing mine, on a roughly comparable tax footing with the opening of a new mine.

*Recommendations*

1. *Exploration and development costs incurred by taxpayers who cannot meet the "principal business" test*

**Approved.**

**Although not much was said in the briefs about this proposal, it is clear that it is a valuable new incentive for investment in the resource industries by those who are severely restricted in such activities under the present Act.**

2. *Purchase and sale of mineral rights*

**Where it can be demonstrated that there is no change in economic interest, the Committee believes consideration should be given to permitting the transfer of mineral rights between corporations without tax being exigible. In view of our recommendation on capital gains, safeguards against abuse would be necessary.**

3. *Fast write-off for machinery and buildings for a new mine*

**Approved.**

**Representations were made to the Committee that improvements to existing mines should also be eligible for the fast write-off. The Committee is unable to recommend this since the existing mines would already have received the benefit of the three-year tax holiday, which the fast write-off provisions would replace. We do, however, recommend that the expenditures on the new mine should be deductible from the profits of either the new or the old mine and not only, as the White Paper proposes, from those of the new mine.**

**To be consistent with the concept in the White Paper that taxpayers should not be taxed on mining ventures until the investment is recovered, we recommend that the fast write-off shoud be extended in its present form to all capital expenditures involved in bringing the mine into production including, for example, townsites. The phasing out of the three-year exemption is approved.**

4. *Depletion Allowance*

**The Committee approves the "earned depletion" concept, and endorses the ratio of expenditure to depletion allowance. However, we suggest that the government give consideration to the possibility of further broadening the earned depletion base to include:**

**(i) the cost of all mineral properties;**

**(ii) such things as townsites provided by the company;**

**(iii) expenditures on equipment that would increase the degree of processing minerals in Canada, particularly those orientated to export, consistent with the policies of some provinces; this, of course, is along the lines of Mr. Benson's recently expressed policy, which the Committee feels can be further pursued.**

**We further recommend that taxpayers should be allowed to establish a "bank" of earned depletion as at the start of the system by calculating past exploration and development expenditures less any depletion allowed. There would have to be strict provisions to prevent trafficking in dormant depletion credits.**

5. *Prospectors and grubstakers*

**This proposal is approved for grubstakers. However, we recommend that prospectors continue to be treated as under the present Act.**

## TAXPAYERS IN THE PROFESSIONS

*White Paper Proposal*

**5.46-5.47**

Professionals would be required to adopt the accrual basis for computing income. Amounts receivable and inventories at the date of changeover would be allowed to be brought into income over a period of years.

*Comments*

The problem of cash versus accrual reporting of income for professionals affects many taxpayers functioning in varied sectors of our economy.

Many professionals are employees—of corporations, government or large professional firms—and the White Paper proposals requiring actual reporting of income do not affect them; they affect only sole practitioners and partners.

Under the present law, section 85F of the *Income Tax Act* provides an option to those professionals who carry on business as sole practitioners or partners to report their income on a cash basis. Taxpayers carrying on business have the opportunity to select a fiscal year-end other than the calendar year for their business. The business income earned during such a fiscal period forms part of the present income of an individual taxpayer who reports on a calendar basis. In other words, an individual carrying on a business may have a January 31 year-end for his business and in 1970, the income earned by his business for the twelve months ending January 31, 1970 will be included by that individual in his income for the taxation year ending December 31, 1970. Tax will be paid in quarterly instalments commencing June 30, 1970, with any unpaid balance due on April 30, 1971. This is permitted to any individual or company carrying on a business. The purpose is to allow a business to select a reporting period which coincides best with the annual cycle of its business activity which often may not be January 1 to December 31.

The White Paper suggests that professionals have an "advantage" resulting from their entitlement to report on a cash basis. Other cash basis taxpayers, i.e., wage earners and those with income from dividends, report on a calendar basis and do not have the opportunity for deferral discussed above.

Although the several briefs before the Committee approach the problem from various angles, the main thrust of the arguments against "accrual" reporting can be summarized as follows:

1. The cash basis of reporting, far from being the exclusive privilege of professionals, farmers and fishermen, is the method prescribed for use by the large majority of taxpayers, namely wage earners, and other individuals with respect to investment income. The accrual method is a later statutory development, imposed upon certain taxpayers in order to more properly reflect the results of a "business" operation. However, professionals are fundamentally performing a personal service in something of the same manner as an employee renders services to his employer and, therefore, professionals ought to be taxed like the majority and ought not to be included in the exception to the general rule. Parliament itself recognized this proposition by the introduction of section 85F of the *Income Tax Act* in 1965.

2. Although the White Paper proposals suggest that professionals have enjoyed an advantage over businessmen, professional men argue that their inability to incorporate has precluded these groups from obtaining many of the tax advantages available to businessmen. It is contended that it is not appropriate to place professionals on the same footing as businessmen without extending to them some of the compensating advantages enjoyed by businessmen. The White Paper proposals would of course eliminate one advantage by abolishing the low rate of tax. The Committee has adopted the principle expressed in the statement of the Minister of Finance that any incentives should apply to both incorporated and unincorporated small businesses.

3. If the accrual basis of reporting is to be adopted, one must consider the special problems which arise in connection with both treatment of work in process and treatment of receivables insofar as they relate to professionals.

(a) The briefs argue that a professional's "inventory" unlike a manufacturer's, is nothing more than his unbilled work in process and this item is incapable of any degree of accurate measurement. Furthermore, since this item is not of a tangible nature, it does not have any value unless and until the matter is ultimately reflected in an actual billing. The Committee agrees that there is a significant difference between a professional's "inventory" and a manufacturer's inventory, but we must also consider whether or not there is any fundamental difference between a professional's so-called "inventory" or work in process, and that of any other service business which is at present reporting its income on an accrual basis, either for tax or for general accounting purposes.

In addition, any attempt to measure inventory on either a "value" basis or a "cost" basis does raise some unique problems, especially for professionals who function in a partnership relationship. These were set out as follows in a brief submitted to us.

> Even if the proposal to tax professionals on an accrual basis were fair and equitable, it overlooks certain grave difficulties in its implementation. Of these by far the most serious is the difficulty of valuing the inventory of a professional business. For the most part this inventory consists of an accumulation of time by the proprietor, partners and staff that may not be capable of being billed at the year-end of the professional firm. In many cases the value of the work done to that point cannot be determined. While it may be possible to determine the cost of the work, if adequate time records are kept, by reference to the salary paid to the person actually doing the work (where the work is done by an employee), the cost may have little relationship to the value of the work done. In many cases the inventory has no value until such time as the work is completed to the client's satisfaction. In any event, it should be noted that many professional persons do not maintain, and some cannot reasonably be expected to maintain, time or other records that would enable any meaningful determination of work in process.

(b) There are some problems peculiar to the legal profession. It was argued that a lawyer's receivables are in character different from those of businessmen or other professionals. First, in most provinces, lawyer's accounts are not legally enforceable until they are "taxed"—that is, approved by a judicial officer; and second, lawyers' receivables cannot be factored.

4. The briefs suggest that the introduction of mandatory accrual reporting will have its most adverse effects on young practitioners starting out in practice, and sole practitioners. In other words, large firms with sufficient ancillary staff perhaps could cope with accrual reporting, but the small practitioner without much staff, who is often not paid until long after a matter is billed and who often will not press his client for payment will suffer most, and may even face the possibility that his taxable income will significantly exceed his actual "cash" income.

5. The briefs also suggest that the so-called "abuses", such as deferral of billing in order to avoid reporting income, maintaining funds in trust accounts, etc. are no longer relevant problems, partially because of more diligent enforcement of the present law by the Revenue authorities and partially because the economics of modern practice do not permit of such indulgences.

*Recommendation*

**The Committee's recommendation, is that the accrual basis for professionals be adopted for receivables but not for inventory and work in process, with a transitional period and appropriate safeguards to ensure that the timing of billings is not open to abuse.**

## FARMERS AND FISHERMEN

*White Paper Proposals*

**5.48-5.53**

1. With the taxation of capital gains as proposed in the White Paper the "basic herd" concept would be obsolete. The fair market value of the herd on valuation day would be deductible from future sales of livestock.

2. A "hobby farmer" would be allowed to capitalize property taxes on the farm and interest paid on loans related to the purchase of the farm—that is, to add the amount involved to the cost to him of the farm. This would reduce the gain on sale but would not be allowed to increase the capital loss that could be deducted.

*Comments*

The Committee wishes to express its strong support of the averaging provisions applicable to farmers and fishermen. Many of their objections to the heavy weight of the impact of capital gains and estate taxes are met by our recommendations regarding these taxes. They will also be helped by our recommendations that there be no capital gains tax on gifts between spouses, and that taxpayers be permitted, on valuation day, to take the higher of cost or market, or to elect to take the cost of an asset and apportion the gain over the period the asset was held, paying tax only on the proportion of the gain accrued after valuation day.

*Recommendation*

**1. Since we recommend half inclusion of capital gains we recommend that taxation be on a capital gains basis. This necessitates retention of the basic herd concept.**

**2. Approved.**

## INVESTMENT INCOME OF CLUBS AND OTHER NON-PROFIT ORGANIZATIONS

*White Paper Proposal*

**5.54**

Investment income of organizations covered by section 62 (1)(i) of the *Income Tax Act* would be subject to corporation tax.

*Comment*

The sections in the present law exempting certain organizations from tax do not seem to have any overall rationale for their groupings. Agricultural organizations, boards of trade, chambers of commerce, charities, labour organizations and non-profit corporations for scientific research are all exempt.

At the other end of the scale from these there are purely social clubs organized entirely for the personal enjoyment of members, while in between are many organizations such as lodges, service clubs and professional societies which exist for the benefit of members but which also often perform activities of benefit to the community. The briefs indicate some difficult cases in this area, such as cemeteries where investment income is used to meet the expenses of maintaining graves from settlements of many years' standing, and yet the cemetery does not qualify as a charity.

The Committee understands that in most cases the investment income of organizations such as those mentioned in the White Paper is very small, sometimes only a few dollars of bank interest in a year.

*Recommendation*

**The Committee recommends that this proposal be dropped for the time being, and that the whole area of the law on this question—an area which is a haphazard accumulation of odds and ends, going back to the *Income War Tax Act*—be redrafted, not with a view to eliminating exemptions but for clarification and rationalization of the provisions, after which the proposal should be re-examined. Possibly groups of non-profit organizations should be redefined for tax purposes as: (a) charities; (b) "semi-charities" (those whose activities do have a degree of benefit to the community but which do not fall within the present concept of charitable organizations); and (c) primarily social organizations (those whose activities are entirely for the benefit of their own membership).**

*Trusts*

**5.56**

A trust that has issued transferable or redeemable units would be treated as a corporation (widely held, closely held or mutual, according to circumstances).

Other trusts would continue to be taxed as at present, but income accumulating therein would be subject to a flat-rate federal tax of 40%, which provincial taxes would increase to about 50%.

*Comment*

The White Paper itself recognizes that little is known about the use of trusts in Canada.

The whole question of trusts is such a technical one that the Committee would have hesitated, in any event, to attempt to give a reasoned judgment on the proposals. However, fortunately it is not necessary or desirable for us to do so; organizations and groups very closely associated with this problem have appeared before us and have advised us that they are in communication with the Department of Finance with a view to developing a comprehensive proposal for the taxation of trusts. We therefore make no recommendation on these proposals.

However, because many people now have trust arrangements based on the present conduit theory of taxing trusts, and because in all, many millions of dollars may be affected by the decisions reached in the discussion, we urge the Minister of Finance to make known at the earliest possible opportunity the decisions reached.



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## INVESTMENT INCOME OF CLUBS AND OTHER NON-PROFIT ORGANIZATIONS

*White Paper Proposal*

[illegible]

*Comment*

[illegible] organizations, boards of trade, chambers of commerce, [illegible] organizations and non-profit corporations for scientific research are [illegible]

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# CHAPTER 6

# Taxing International Income

## *White Paper Proposals*

## FOREIGN-SOURCE INCOME OF CANADIANS

### *Dividends from "Controlled" Foreign Corporations*

**6.15-6.19**

1. Dividends received by a Canadian corporation from a "controlled" foreign Corporation (defined as one in which 25% or more of the voting shares are owned by the Canadian corporation) will continue to be tax-free if the foreign corporation is in a country with which Canada has a tax treaty. The exemption will not apply to "passive income"—see below.

2. Where a dividend is received from a controlled corporation not protected by tax treaty, the Canadian corporation would be allowed a credit for the foreign withholding taxes imposed on the dividend and for any foreign corporate tax imposed on the underlying profits out of which the dividend was paid.

3. Existing exemption for all dividends from a controlled foreign corporation regardless of country, would be retained at least until 1973, until a network of tax treaties could be built up.

4. The general capital gains provisions would apply to shares of controlled foreign corporations. Capital losses, however, would be restricted to the actual loss less a reduction based on the dividends received from the corporation that did not bear full Canadian tax.

### *Passive Income of Controlled Foreign Corporations*

**6.20-6.21**

To counter tax-haven abuse, it is proposed to introduce United States type legislation to deal with "passive" income. This is income of a foreign company which is not carrying on bona fide business operations but to which income from other sources—dividends, interest, royalties and trans-shipment profits is diverted. The U.S. law provides that in such circumstances the U.S. controlling shareholders are taxed on a current basis whether or not the income is distributed to them.

### *Other Foreign Investment Income*

**6.22**

Rate of withholding tax on portfolio investment income flowing between countries that have a tax treaty should not exceed 15%; and after 1974 the maximum rate of tax for which foreign tax credit would be granted on this type of income would be 15%.

*Business Profits and Wages Earned Abroad*

**6.23-6.25**

Two changes to foreign tax credit provisions:

1. taxpayers will be prevented from reducing Canadian tax by transferring the operation of a foreign branch which has sustained losses to a foreign company in order to avoid Canadian tax which should be recaptured on future profits; and

2. the excess of foreign taxes paid over the amount creditable in a year will be permitted to quality for allowance in other years.

3. Canada is prepared to recognize income taxes of political subdivisions of foreign countries on a reciprocal basis.

*Flow-through of Foreign Withholding Taxes*

**6.29-6.30**

Shareholders of Canadian corporations would be given credit for withholding taxes levied by foreign governments on dividends received and branch profits earned by the Canadian corporations. (To equate position of Canadian receiving a foreign dividend directly with that of Canadian receiving a dividend through a Canadian corporation.) Amount qualifying for flow-through treatment limited to lesser of (a) the foreign tax or (b) 15/85ths of the foreign earnings net of all foreign taxes.

*Comments*

The international area of taxation is recognized by the Committee to be even more complex than the domestic. A number of criticisms of the White Paper proposals has been directed to the Committee and in what follows we shall attempt to deal with them in terms of what we feel are desirable overall policy objectives for Canada.

The White Paper expresses several objectives underlying its proposals:

—a desire to establish a system which will neither encourage nor discourage Canadian investment abroad;

—a desire to maintain an international climate hospitable to the unrestricted flow of capital across international boundaries;

—a desire to reduce the tax avoidance opportunities available within the present system;

—a conviction that, in the end, the most effective instrument available to achieve the foregoing is the development of a network of tax treaties.

The Committee endorses these White Paper objectives, which do not establish artificial barriers to the international expansion of Canadian business activities; and in particular concurs in the view that treaties are the most effective means to the desired end. It is most desirable in the Committee's view that Canadian multinational corporations should be able to compete effectively abroad, and further that Canadian businessmen should be able to operate under tax treaty protection when they invest abroad. As the Committee understands it, a main reason Canada has not developed a large treaty network to date is that it unilaterally provides, in its general tax law, treatment which other countries would provide only in treaty circumstances. As a result, Canada has little to offer by way of bargaining points to encourage treaties. While this neutral approach is commendable, it leaves Canadian negotiators at a distinct disadvantage at the treaty table, when trying to obtain treaty advantages for Canadian businessmen investing abroad.

These conclusions led us to endorse the White Paper proposal which draws a distinction between Canadian-controlled foreign subsidiaries operating in treaty and non-treaty countries. In the proposed scheme of things, the tax advantages extended by Canada to Canadians to invest in treaty as opposed to non-treaty countries is a significant positive factor which should encourage other countries to enter bilateral tax treaties with Canada.

At the same time, we recognize that treaties cannot be successfully negotiated with all of the countries in which Canadians invest and therefore our tax system should not put an onerous burden on Canadians investing abroad in non-treaty countries, particularly where these investments represent bona fide and productive commercial ventures.

At present, income of a Canadian-controlled, foreign corporation not resident in Canada, is not taxed by Canada unless and until it is repatriated to Canada and distributed to individual Canadian shareholders or to non-resident corporate or individual shareholders in which latter event Canadian withholding tax applies. In the former event, if the income reaches the Canadian individual shareholder through a tax-paying Canadian corporation, the Canadian individual would receive the benefit of the dividend tax credit with respect to such income.

Under the White Paper proposals, where such foreign corporation is in a treaty country few changes are proposed.

The main differences for controlled foreign corporations in a treaty country are:

(1) "Passive income"* (but not "operating income") would be taxed currently by Canada, whether or not repatriated.

(2) Under the integrated tax system proposed for domestic income flows,** all income from such foreign corporations would be received, as now, as a tax-free inter-corporate dividend, but would be taxed upon leaving the recipient Canadian parent company in the same manner as Canadian source income of such company, but with creditable tax limited to $15/85^{\text{ths}}$ of any foreign withholding tax paid (the "flow-through" proposal at 6.27-6.30).

It is the Committee's understanding that the "flow-through" concept proposed for foreign withholding tax would replace to a fairly large degree, in many cases, the benefit which would be lost if the dividend tax credit were to be replaced by the integrated tax system for Canadian individual share-

* Examples given in the White Paper (6.20) are: dividends, interest, royalties, and trans shipment profits.

** See the introduction to Chapter 4 of this report.

holders. In addition, since "flow-through" credit will be available as a credit against Canadian withholding taxes, it would remove a large standing problem facing Canadian companies operating extensively abroad in that foreign investors in the shares of such Canadian companies would not suffer Canadian withholding tax if the flow through credit was sufficient, as in most cases it would be.

In the case of Canadian-controlled foreign corporations in a non-treaty country the situation would be the same under the White Paper proposals as for such a company in a treaty country, except that upon repatriation of profits, if the level of tax had been less than full Canadian corporate tax, it would be brought up to the Canadian level. This appears to us to be reasonably fair treatment, and one that would permit foreign corporations controlled by Canadians to operate in non-treaty countries without being at a disadvantage with domestic competition in those countries.

It seems clear to the Committee that the White Paper proposals for distinguishing between treaty and non-treaty situations would, by and large, produce reasonable tax results for foreign-source income of Canadians.

Many witnesses have pointed out to us that the effect of the White Paper proposals might be to discourage Canadian investment in less developed countries, a policy which might be considered to run counter to Canada's obligations and policy in the international sphere. This would be where such countries offered attractive tax incentives but were not prepared to enter into a bilateral tax treaty with Canada.

The reasoning is that the gross-up proposal for non-treaty country source income would reduce the effect of the tax incentive or, in effect, it would put some of the tax forgiven by the developing country into the Canadian Treasury, just as occurs now with Canadian incentives going to some non-residents. The developing country as a result may not extend the tax incentive.

There is, of course, a counter argument. It is that the Canadian gross-up for repatriated income would tend to work against repatriation of profits and to work in favour of the re-investment of profits in the developing country, which could well be considered by such country as advantageous. The developing country which wanted to overcome the idea of its tax incentives flowing into the Canadian tax coffers could enter a treaty with Canada.

There might be instances, however, where the treaty route would not be feasible and where Canada felt it was in its interest to have a Canadian company invest in a particular underdeveloped country and to enjoy any tax incentives offered there. In these circumstances we suggest that on a selective basis certain developing countries, or their incentives be treated for tax purposes as if a treaty existed or as if the full rate of corporate tax in that country had been paid.

We do not, of course, recommend that such concessions be conferred easily or indiscriminately, because to do so would defeat the treaty development purpose of the proposals.

We have discussed in connection with integration generally the "flow-through" question with respect to foreign source income where the domestic integrated tax system would come into play.

We believe our proposals for a free flow of dividends between domestic affiliated companies would overcome some aspects of this type of problem, and to the extent the foreign tax "flow-through" proposal did not meet the others, if as a policy matter it was felt desirable to improve the after-tax results, additional "flow-through" provisions could be provided if the domestic gross-up and credit proposals were adopted.

We now turn to the objective of curtailing tax avoidance.

The integrated tax system proposal for non-treaty countries would not only provide an inducement for the development of a tax treaty network but at the same time (as the Committee understands it) would also provide a major part of the mechanism for the elimination of the tax haven abuse.

Further, there would be no advantage, other than in timing, to transmuting non-dividend income into dividends by passing the income through a tax haven company; in fact there could be a tax disadvantage where the underlying foreign profits have borne any foreign corporate or withholding tax.

In any event a gross up and credit mechanism would appear to be a necessary device to make the passive income proposals effective.

PASSIVE INCOME. Although we are in sympathy with the government's objectives in this area, we have grave concern about the feasibility of the proposal to introduce rules along the lines of the "Sub Part F" provisions of the United States though the term "Sub Part F" is not actually mentioned in the White Paper. Witnesses have appeared before us and suggested:

(a) that rigorous enforcement of the present Act could reduce the magnitude of the problem of tax haven abuse to acceptable proportions;

(b) the experience of the United States with Sub Part F has been far from satisfactory.

Some of these points might be responded to as follows:

(a) (i) The present Act is not adequate to cope with the problem of tax abuse, not because of any deficiency in system's terms, but because of an inability to obtain the information and enforce compliance. It is cold comfort to determine that a foreign corporation is "resident" and therefore taxable in Canada if there is no adequate method of collecting the tax.

The impact of Sub Part F type rules would be to shift the liability for the tax from the foreign corporation to a taxpayer within Canada's taxing jurisdiction, both in theory and in fact.

(ii) Sub Part F type rules may be more desirable than tougher enforcement of residence rules, because the former would snare only passive income, leaving commercial income outside the scope of Canadian tax until repatriation.

In the same vein we suggest that the government narrow its area of concern from that of "passive" income to that of "diverted" income, because we believe the former concept to be unnecessarily broad. In other words, we suggest that investment type income which is derived as yield from surplus cash of a bona fide foreign business operation should be regarded as being qualitatively different from yield of Canadian capital or assets deliberately diverted offshore to avoid tax rather than for a business purpose.

(b) While the Government has not elaborated upon the details of its proposals in this area, Government witnesses have stated that they are confident that rules can be developed in this area which are significantly simpler and more effective than the Sub Part F rules in the United States.

Be that as it may, we are still left with the concern that the objective may not be worth the price which must be paid to accomplish it. The continued use of tax havens to effect tax avoidance is obviously undesirable, but unfortunately the Government has not indicated to us the magnitude of the problem, in terms of either dollars or taxpayers. Similarly, Government witnesses have not indicated whether or to what extent a system of mandatory reporting of interests in foreign corporations, trusts, etc. coupled with enforcement of the present law, would mitigate the problem. This Committee would consider it a retrogressive step if legislation were to be enacted which, in order to deal with a small problem, introduced serious obstacles to the bona fide international business activities of Canadians.

We note that the proposal for a general withholding tax rate of 25% for flows to resident or non-treaty countries would provide a partial barrier to diverting income from Canada, as would vigorous enforcement of the fair market value pricing rules now in the tax law.

If the tax avoidance problem remains serious enough to warrant pursuing and the combination of higher withholding tax and the present "fair market value rules" are not sufficient—as the government's proposals must lead us to believe—there appear to be only two choices available to cope with it. These are tougher enforcement of the existing residence rules or the introduction of ministerial discretion by which certain types of passive or diverted income could be deemed to be currently taxable by Canada in the hands of Canadian shareholders. As we have suggested previously, tougher enforcement of the residence rules across the board would affect bona fide foreign business operations as well as passive or diverted income —which we consider an undesirable result.

We dislike ministerial discretion as a matter of principle, and would note that if it were provided, informal rules would undoubtedly grow up to define the circumstances in which it would be exercised.

In our view, rules which are subject to Parliamentary scrutiny are clearly preferable to informal rules and ministerial discretion; therefore, with some reluctance we acknowledge the need to develop Sub Part F type rules.

*Recommendations*

**Subject to the foregoing comments the Committee approves the government's objectives for taxing foreign source income of Canadians and in particular its objectives with regard to: dividends from "controlled" foreign corporations; passive income of controlled foreign corporations; other foreign investment income; business profits and wages earned abroad; and the "flow-through" of foreign withholding taxes.**

## FOREIGN BUSINESS CORPORATION

*White Paper Proposal*

**6.31-6.33**

Exemption from tax for foreign business corporations*, removed in 1959 except for those then in existence, to be entirely removed. This would be done immediately for passive income, while for business profits there would be a foreign tax credit system over a five-year period.

*Recommendation*

**The Committee approves this proposal but recommends that the five-year transitional period apply to passive income of foreign business corporations as well. See also N.R.O. comments below.**

## CANADIAN TREATMENT OF NON-RESIDENTS

*White Paper Proposal*

**6.36-6.38**

*Withholding Tax*

Rate to be increased to 25%, except under existing tax treaties; the increase would not apply to dividends before January 1, 1974, but would apply to other income as of January 1, 1971, with certain mitigations.

(It was stated in Chapter 1 of the White Paper that pensions paid from Canada to persons living outside would be subject to a withholding tax of 25%, but with provision for lower or higher rates if the circumstances of the recipient warrant them.)

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*A foreign business corporation (defined at length in section 71(2) of the *Income Tax Act*), is, briefly, a corporation resident in Canada which carries on business during the year entirely outside Canada. It files a return and pays an annual fee of $100.00.

*Recommendations*

**The Committee approves this proposal provided that the intent in 1.46 is implemented. We assume this means that recipients of Canadian pensions living in non-treaty countries would be permitted to elect to be taxed as if they were still resident in Canada. The Committee also assumes that the recipient of a pension would be subject to a 15% withholding tax if he resided in a treaty country, unless the treaty provided (as some treaties do) that pensions be taxed in the country of residence. A continuation of such treaty provisions would in our view be appropriate.**

## NON-RESIDENT OWNED INVESTMENT CORPORATIONS (N.R.O.)

*White Paper Proposal*

**6.40**

> Now taxed under section 70 of the *Income Tax Act* at 15%, they would be subject to an increased tax "to match the rate of the non-resident withholding tax."

*Comments*

As we understand the historical evolution of the N.R.O., it was designed to permit foreign investors in Canada to use a Canadian corporation to hold their investments and yet be in the same position as if they made their investments directly. In line with the concept the "N.R.O" is taxed at a rate equivalent to the Canadian rate of withholding tax, now 15%. This arrangement is convenient for foreigners and serves to facilitate, if not encourage, the flow of foreign capital into Canada. If such be the case we are puzzled by the proposal in paragraph 6.40 of the White Paper. Although the paragraph in question is somewhat ambiguous, we understand that the proposal contemplates raising the N.R.O. rate from 15% to 25%, which is the general "rate of non-resident withholding tax".

We believe that the NRO has served and can continue to serve a useful function within our tax system.

*Recommendation*

**Therefore, we recommend that to the extent possible the N.R.O. be treated as a non-resident for all purposes, including tax on capital gains. In particular we recommend that the rate of tax applicable to the ordinary income of an N.R.O. be variable, depending on the applicable rate of withholding tax of the beneficial owners of the N.R.O. shares, i.e. 15% where they are residents of treaty countries, and 25% otherwise.**

We recognize that this recommendation raises several problems in terms of implementation. For example, rules would have to be developed to cope with the following problems;

(a) to ensure that the N.R.O. was in fact beneficially owned by foreigners, not by Canadians masked by a veil of foreign corporations and/or trusts;

(b) a situation where some of the N.R.O. shareholders lived in a treaty country and some did not.

To guard against the possible improper use of N.R.O.s by Canadians and to meet the problem of joint ownership in treaty and non-treaty jurisdictions, **we recommend the election required for a Canadian company to be taxed as an N.R.O. be subject to the applicant's satisfying the Minister of National Revenue as to the facts of the residence of the owners.**

**We further recommend that consideration be given to expanding the source of income rules for qualification as an N.R.O. in order to make it possible for at least some foreign business corporations to become N.R.O.s and thereby be able to continue their presence in Canada.**

## THIN CAPITALIZATION

*White Paper Proposal*

**6.42**

Proposed to restrict deductibility of non-arm's length interest where ratio of shareholder debt to equity exceeds three to one.

*Comment*

Although paragraphs 6.41 and 6.42 of the White Paper are not explicit on the point, it is our understanding that the "thin capitalization" rules are intended to apply only to Canadian corporations which are owned by non-residents. Assuming this conclusion to be correct, we again are sympathetic to the problem which has prompted the Government to suggest these rules, but we are doubtful about the feasibilty of the proposed solution. As the White Paper observes, other countries have experimented with similar type of legislation with only modest degrees of success and at a considerable cost in terms of both complexity and interference with normal commercial activity.

Submissions to the Committee on this proposal pointed out that it was not sufficiently detailed to permit of useful criticism, which will have to await the appearance of draft legislation.

*Recommendation*

**We approve the objective of the proposal. However, we recommend that the government proceed to the legislative drafting stage, but be prepared to reconsider the proposal if sufficient valid criticism of its workability is received at that time.**

## CAPITAL GAINS

*White Paper Proposals*

**6.43**

1. International provisions would have to be changed to extend Canadian tax to gains made by non-residents on disposal of real property, partnership interests and branch assets in Canada.

**6.46**

2. Non-residents to be taxed on gains on sale of shares of closely held Canadian corporations. To ensure compliance a system of "certificates of compliance" proposed.

**6.47**

3. Non-residents to be taxed on gains on shares of widely held corporations only when sale is out of a substantial interest of 25% or more.

*Recommendations*

**We recommend adoption of these proposals because without them avoidance of Canadian capital gains tax would be readily possible for Canadian residents.** Moreover, Canadian residents who did not seek avoidance would be at a disadvantage vis à vis residents of countries without a capital gains tax with respect to capital gains on Canadian assets. This disadvantage cannot of course be avoided in the case of small lots of shares of widely held Canadian corporations, any gains from which would not be taxable to non-residents under the White Paper proposals.

Undoubtedly problems of compliance by non-residents in respect of other assets will arise. However our general recommendations on capital gains, which would make Canadian rates and rules more comparable with those elsewhere than the general White Paper proposals, should reduce these difficulties.

In the case of treaty countries having comparable capital gains treatment and rates, although we should seek to renegotiate our treaties to conform with the above stated general rules, where this is not possible **the Committee recommends that Canada be prepared to accept taxation of capital gains on a residence basis except for land, and capital assets effectively connected with a permanent establishment in Canada.**

## BRANCH PROFITS TAX

*White Paper Proposal*

**6.48**

The 15% branch tax under section 110B of the *Income Tax Act* would be increased to correspond with the change in withholding rate on dividends.

6.49

The formula for measuring the profits available for withdrawal contains a deduction for profits invested in land and depreciable assets. This deduction would be placed on a basis that took into account the depreciation of those assets, and a deduction would be added to recognize the need for working capital.

*Recommendation*

**Approved on the basis of the Committee's understanding that the rate will depend on whether or not the company is a resident of a country with which Canada has a treaty.**

3. [illegible] would have to be changed to extend Canadian tax [illegible] disposal of real property, partnership interests [illegible]

4. Non-residents to be taxed on gains on sale of shares of closely held [illegible] To ensure compliance a system of "certificates of compliance" proposed.

[illegible]

5. Non-residents to be taxed on gains on shares of widely held corporations only where there is sale of a substantial interest of 25% or more.

*Recommendations*

We recommend adoption of these proposals because without them avoidance of Canadian capital gains tax would be readily possible for Canadian residents. Moreover, Canadian residents who did not seek avoidance would be at a disadvantage vis à vis residents of countries without a capital gains tax with respect to capital gains on Canadian assets. This disadvantage cannot of course be avoided in the case of small lots of shares of widely held Canadian corporations, any gains from which would not be taxable to non-residents under the White Paper proposals.

Undoubtedly problems of compliance by non-residents in respect of other assets will arise. However our general recommendations on capital gains, which would make Canadian rates and rules more comparable with those elsewhere than the general White Paper proposals, should reduce these difficulties.

In the case of treaty countries having comparable capital gains treatment and rates, although we should seek to renegotiate our treaties to conform with the above stated general rules, where this is not possible the Committee recommends that Canada be prepared to accept taxation of capital gains on a residence basis except for land, and capital assets effectively connected with a permanent establishment in Canada.

## BRANCH PROFITS TAX

*White Paper Proposal*

6.51

The 15% branch tax under section 110B of the Income Tax Act would be amended to correspond with the change in withholding rate on dividends.

CHAPTER 7

# Co-ordination with the Provinces

The White Paper at 7.1 states: "A major concern of the government in the program of tax reform will be to maintain the high degree of co-ordination which has been achieved in recent decades between the federal and provincial income tax systems."

This Committee fully shares this view, and this concern has been a major factor in the shaping of the Committee's recommendations on a number of the White Paper proposals.

As indicated in the introduction the Committee either formally or informally has received the views of all but two provinces—British Columbia and Prince Edward Island. These views reflect for the most part what the Committee has found to be the general view of many Canadians from whom it has heard, namely that at this stage of Canada's development economic growth is regarded as having a higher priority than the degree of equity sought in the White Paper. The succinct phrase "too far, too fast" perhaps best sums up the tenor of the views of most of the provincial governments on the White Paper proposals as a whole, in particular on taxing capital gains.

The Committee believes its recommendations reflect to a large degree the views of most of the provinces and that their adoption would pave the way for the acceptance of tax reform by the provinces and continued co-ordination of federal and provincial tax systems.

Such continued co-ordination the Committee regards as a paramount objective of Canada's tax policy. Without it, Canada could quickly return to the tax jungle of the 1930's in which the loss of equity and the adverse economic impact might make meaningless the White Paper's objectives of reform.

The Committee's recommendations together with the proposals concerning taxation of the Canadian mining industry made by the Minister of Finance in his letter of August 26 to provincial Finance Ministers and Treasurers, should, the Committee believes, produce a firm basis for federal-provincial discussions and agreement on the subject of tax reform.

The additional provincial abatements proposed by the Minister of Finance for the income of mining companies is, we believe, a sound proposal directed to permitting the provinces a deciding voice in the tax treatment of this important industry, in accordance with regional and provincial needs for revenues and development.

The Committee therefore commends to the provincial governments the reform proposals, as they would be modified by the Committee's recommendations, and the Finance Minister's proposals.

## CHAPTER 8

# Impact on Revenues and the Economy

### REVENUE ESTIMATES

Regrettably, consideration of the White Paper proposals was complicated by the extensive difference in the federal and Province of Ontario revenue estimates of additional revenue that the proposals would be likely to yield once the proposed system was fully in effect.

In this dispute, the Committee and taxpayers generally were hapless bystanders. Much of the overall opposition to the White Paper proposals was generated by this dispute, which created the misconception that the hidden objective of the proposals was a generally higher level of taxation rather than reform.

Nevertheless, from the Committee's point of view, the damage was done in that it diverted public attention from the concrete proposals and their effects. The Committee has not attempted to produce its own revenue estimates nor to resolve the federal-Ontario differences. To produce a third set of estimates at this date would have resolved little and would have delayed this report by several months. The results would still be only estimates and, as with the Ontario and federal projections, only as good as the assumptions upon which they were based.

The revenue effects of our recommendations will have to be considered by the Minister of Finance and if accepted, the rate structures adjusted accordingly.

Your Committee was pleased to receive on June 11, 1970 from the Minister of Finance assurance that additional revenues, if any, resulting from implementation of tax reform during the five-year transitional period would be eliminated through use of a fixed schedule of declining income tax rates.

### ECONOMIC EFFECTS

As indicated at a number of places throughout this report and as will be obvious from the Committee's various recommendations, the Committee regards the continuation of a high level of economic growth as a main objective of Canada's tax system in the foreseeable future.



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The Committee believes adoption of its recommendations on the taxation of capital gains, on incentives for extractive industries, for the growth of small business and for a reduction in the weight of estate taxes would remove the chief causes of concern that the White Paper proposals would adversely affect Canada's rate of economic growth. At the same time it believes its recommendations achieve the substantial improvement in equity over the present income tax system which is desired by all Canadians.

It will also have been noted that the Committee has sought in its recommendations to remove from the transitional period possible retroactive effects of proposals. This will confirm the intent of the White Paper itself that investors in Canada, whether resident or non-resident, can look forward with continued confidence that Canada can be depended on to treat fairly those who rely upon her laws.

Your Committee wishes to extend its thanks to all members of the public who have participated in this study of tax reform, and to the staff and expert advisers who have assisted the Committee in its work.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 12, 13, 16, 18, 25, 28, 30 to 33 inclusive, 35, 37 to 41 inclusive, 43 and 45 to 93 inclusive*) is tabled.

Respectfully submitted,

GASTON CLERMONT,

*Chairman.*

**Appendix "A"**

## List of Witnesses Appearing before the Committee and Dates of their Appearances

Adams, Fraser, Smith and Shaver, (July 28, 1970)
Miss M. R. Smith and Messrs. K. M. Dewar and W. Storey.

A. E. Ames and Company Ltd. (June 2, 1970)
Messrs. W. B. Macdonald, D. E. Foyston, R. E. Bellamy, M. Gaasenbeek and R. W. Reid.

Agricultural Institute of Canada (May 5, 1970)
Messrs. D. B. Young, W. T. Burns, R. A. Stewart, and W. E. Henderson.

Alberta Roadbuilders Association (July 23, 1970)
Messrs. D. Gower, S. Boulter, F. G. Missiaen and J. Y. Gouin.

Alberta Wheat Pool (July 24, 1970)
Messrs. G. L. Harrold and O. J. Broughton.

Algoma Steel Corporation Ltd. (May 7, 1970)
Messrs. D. S. Halbrook and J. B. Barber.

Allied Boating Association of Canada (July 28, 1970)
Messrs. R. Baer, W. Pady, R. Kelly and W. Dow.

Alcan Aluminium Ltd. (June 4, 1970)
Messrs. P. Leman, J. G. Lees, J. A. Collins and L. H. Place.

Appraisal Institute of Canada (May 14, 1970)
Messrs. J. W. Egerton and L. V. McPherson.

Aquitaine Company of Canada Ltd. (June 4, 1970)
Messrs. J. Payan and N. Phillips.

Association of Canadian Distillers (July 30, 1970)
Messrs. G. R. Herington and P. F. Vineberg.

Association of Canadian Investment Companies (June 11, 1970)
Messrs. J. V. Emory, H. R. Jackman and R. B. Wright.

Association of Consulting Engineers (May 14, 1970)
Messrs. G. E. M. Proctor and N. L. Reid.

Association of International Business Corporations (June 11, 1970)
Messrs. P. Vineberg, M. Caplin, S. Ross, M. Ellis and J. L. Bruhl.

Atlantic Provinces Economic Council (July 23, 1970)
Messrs. C. R. MacFadden, A. C. Parks, L. R. Shaw, R. W. Smith, Dr. S. Weyman and H. Flemming.

Automotive Industries Association (June 11, 1970)
Messrs. F. D. Rosebrugh, J. L. Michaud, H. J. Pratt and A. K. Redner.

Banff Oil Ltd. (July 24, 1970)
Mr. R. J. White.

Bar of the Province of Quebec (May 12, 1970)
Messrs. P. F. Vineberg and C. Gagnon.

Beaton, J. Wallace (July 31, 1970)
Mr. J. W. Beaton.

Bell Canada (June 16, 1970)
Messrs. G. C. Wallace, G. L. Henthorne and D. L. Robertson.

Bethlehem Copper Corporation Ltd (July 27, 1970)
Messrs. P. M. Reynolds, K. E. Steeves and W. J. Thiessen.

Bombardier Ltée (July 29, 1970)
Messrs. J. P. Gagnon, C. Leblanc and M. Bélanger.

Bowaters Canadian Corporation (July 30, 1970)
Messrs. A. E. Balloch, F. Huck and H. H. Stikeman.



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Brandon Chamber of Commerce (July 20, 1970)
Messrs. K. O. Bicknell, C. Meighen, W. Myers and C. P. Fitzgerald.

British Columbia Forest Products Ltd. (July 29, 1970)
Messrs. I. A. Barclay and K. P. Benson.

British Columbia Hotels' Association (July 30, 1970)
Messrs. E. J. Vernon, L. W. Manuel, H. Neilsen and W. Walsh.

British Columbia, Mining Association of (July 27, 1970)
Messrs. T. H. McClelland, K. E. Steeves, J. R. Croll and C. H. Mitchell.

British Columbia Sugar Refining Company Ltd. (July 29, 1970)
Messrs. H. A. Dunlop, R. E. Burrell and K. B. Alexander.

British Columbia Tenants Organization (July 27, 1970)
Messrs. B. Yorke and L. Whaley

British Columbia and Yukon Chamber of Mines (July 28, 1970)
Messrs. L. G. White, T. Elliott, H. H. Huestis, D. Carnahan, A. Racicot, G. Smith, D. Wing, K. Butler, M. Streber, H. Whitcomb, T. Kirk and S. Uruski.

British Newfoundland Corporation Ltd. (July 22, 1970)
Messrs. W. D. Mulholland, H. W. Macdonell, J. C. Wilson, M. S. Nicholson, R. C. Berry and E. G. Squires.

Burnaby Chamber of Commerce (July 27, 1970)
Messrs. J. W. Croft, H. K. Maddison, R. W. Hassard, A. J. Macdonald and E. A. Downey.

Cadillac Development Corporation Ltd. (June 25, 1970)
Messrs. A. E. Diamond, S. Silver and M. Seaton.

Calgary Power Ltd. (April 28, 1970)
Messrs. A. W. Howard and M. N. Williams.

Campeau Corporation Ltd. (July 29, 1970)
Mr. J. M. P. Kelly.

Canadian Arthritis and Rheumatism Society (May 5, 1970)
Mr. E. Dunlop.

Canadian Art Museums Directors' Organization (June 15, 1970)
Messrs. F. Eckhardt, Ph.D. and W. J. Withrow.

Canadian Association of Oilwell Drilling Contractors (June 25, 1970)
Messrs. R. E. Sparrow, H. J. Irwin, J. W. Thomson, A. G. Burton, G. Pearce and J. D. Porter.

Canadian Association of Real Estate Boards (June 25, 1970)
Messrs. F. N. McFarlane, P. Vineberg, R. J. Dart, H. Dueck, H. P. Bell-Irving, J. T. B. Jackson and Colonel J. A. Hutchins.

Canadian Association of Social Workers (July 27, 1970)
Messrs. L. E. Levine, J. M. Gripton, Ph.D., M. Wheeler and K. E. Calmain.

Canadian Bankers Association (June 18, 1970)
Messrs. R. Leclerc, J. K. Finlayson, J. A. Boyle, J. H. Cornish, M. G. Clennett, M. H. Maltby, S. A. Shepherd, A. B. McKie, D. D. Peters, J. Machabée, J. Boulanger and S. Sarpkaya.

Canadian Bar Association (May 21, 1970 and May 12, 1970)
Messrs. R. C. Merriam, W. R. Latimer, D. M. Clark, H. P. Crawford, W. A. Macdonald, R. H. E. Walker, W. M. Carlyle and J. M. Fuke.

Canadian Cattlemen's Association (July 23, 1970)
Messrs. G. Rose, R. Mitchell, G. Guichon and R. D. Pilling.

Canadian Chamber of Commerce (June 9, 1970)
Messrs. D. V. Byers, F. S. Capon, G. W. Riehl and L. Kent.

Canadian Chemical Producers' Association (June 15, 1970)
Messrs. D. I. W. Braide, B. F. Macdonald, C. A. Brooke and D. A. Macintyre.

Canadian Conference of the Arts (June 22, 1970)
Messrs. J.-L. Roux, R. Disney, G. Lefebvre, D. F. Cameron and B. Chadwick.

Canadian Construction Association (June 25, 1970)
Messrs. R. G. Saunders, R. Hewitt, R. McTavish, D. E. Cornish, K. V. Sandford and S. C. C. Chutter.

Canadian Co-operative Wheat Producers Ltd. (July 22, 1970)
Messrs. W. R. Purslow, E. K. Turner, R. H. D. Phillips, R. E. Moffat, W. C. MacDonell and H. B. Sneath.

Canadian Council for Fair Taxation (June 4, 1970)
Messrs. J. F. Bulloch, C. P. F. Baillie, I. L. Rosen and R. J. Farano.

Canadian Council of Professional Engineers (July 30, 1970)
Messrs. J. B. Angel and L. M. Nadeau.

Canadian Dental Association (May 14, 1970)
Messrs. W. J. Spence, H. Beach, M. O'Brian, W. G. McIntosh and E. Fox.

Canadian Electrical Manufacturers Association and Canada Wire and Cable Company Ltd. (July 30, 1970)
Messrs. T. A. Lindsay, J. H. Stevens, W. A. Chritchley, V. G. Stafl, D. E. Perrin and W. V. McNally.

Canadian Export Association (June 15, 1970)
Messrs. J. M. McAvity, A. K. Stuart, M. J. Ellis and M. Leduc.

Canadian Federation of Agriculture (June 15, 1970)
Messrs. D. Kirk, R. Pigeon, W. Daman, M. Davidson and D. Coxe.

Canadian Federation of Insurance Agents (July 27, 1970)
Messrs V. R. Coghill, W. Stothers, R. B. Bannerman and J. Morris.

Canadian Federation of Mayors and Municipalities (April 30, 1970)
Messrs. M. d'Amour, S. Buckwold, W. Godsalve and E. Beecroft.

Canadian Gas Association (June 8, 1970 and April 28, 1970)
Messrs. F. W. Hurst, G. Miller, R. Wall, K. Harry, R. F. Sim, M. Klein, E. C. Bovey, N. F. Phillips and J. Maybin.

Canadian Growth Study Association (June 2, 1970)
Messrs. A. F. Griffiths, J. Dobson and G. R. Sharwood.

Canadian Institute of Chartered Accountants (June 1, 1970 and May 12, 1970)
Messrs. W. E. Goodlet, W. R. McIntyre, R. D. Brown, D. Huggett, C. McLaughlin, E. Newman and R. D. Thomas.

Canadian Institute of Public Real Estate Companies (June 25, 1970)
Messrs. J. A. Soden, A. Scace and J. M. P. Kelly.

Canadian Labour Congress (July 31, 1970)
Messrs. W. Dodge, R. Bell, A. Andras and G. MacAffrey.

Canadian Life Insurance Association (June 18, 1970)
Messrs. H. Belzile, E. G. Schafer, J. A. Rhind, W. J. Adams, T. R. Suttie, E. H. McVitty, J. W. Popkin, R. D. Radford, G. C. Campbell, J. A. Tuck and F. C. Dimock.

Canadian Machine Builders' Association (July 28, 1970)
Messrs. T. C. King, J. Coates and M. Mair.

Canadian Manufacturers' Association (May 19, 1970)
Messrs. D. G. Willmot, A. D. Laing, D. A. Macintyre, K. O. Fowler, J. Trimble, J. Lees, G. C. Gibb, G. S. Hughes and J. C. Whitelaw.

Canadian Medical Association (May 14, 1970)
Messrs. R. M. Matthews, M.D., C. L. Gosse, M.D., and B. E. Freamo.

Canadian Mutual Funds Association (June 11, 1970)
Messrs. J. Godfrey, J. D. McAlduff and W. R. McKeown.

Canadian Pacific (July 31, 1970)
Messrs. I. D. Sinclair, D. Roblin, J. A. R. Wright, F. A. Rutherford and H. M. Romoff.

Canadian Pension Conference (May 5, 1970)
Messrs. D. R. Anderson, G. Jobin, F. Macorquodale and J. Seltzer.

Canadian Petroleum Association (June 2, 1970)
Messrs. A. R. Nielson, D. L. Fuller, F. McKinnon, F. J. Mair, R. McKinnon and K. Little.

Canadian Potash Producers Association (May 26, 1970)
Messrs. B. E. Hurdle, A. H. Zimmerman, B. Carlson, J. F. de Ferrière and V. C. Wansbrough.

Canadian Pulp and Paper Association (May 19, 1970)
Messrs. R. M. Fowler, I. H. Peck, A. H. Hamilton, T. J. Bell, A. H. Zimmerman, H. Hart, D. A. Wilson, PhD., C. Brooke, F. G. Huck, G. C. Gibb, E. Rankin and R. W. Wilson.

Canadian Restaurant Association and the Hotel Association of Canada (June 16, 1970)
Messrs. J. J. Stanway, O. B. Grubert, C. Burton, S. Styan, R. Sommerville, D. McKeown, G. Smith and G. Eaton, PhD.

Canadian Retail Building Supply Council (July 21, 1970)
Messrs. J. Wright, F. Leeds, A. M. Cook, C. A. McLeod and L. Wood.

Canadian Teachers' Federation (June 8, 1970)
Rev. Brother A. F. Brennan and Mr. N. M. Goble.

Canadian Trucking Association (June 16, 1970)
Messrs. A. K. Maclaren, V. J. Thompson, B. W. Tuckey and H. G. Nickel.

Canadian Utilities Ltd. (April 28, 1970)
Mr. J. Maybin.

Canadian Welfare Council (June 22, 1970)
Messrs. H. S. Racine, R. C. Baetz, B. Philip, M. Wheeler, A. Andras and Miss P. Godfrey.

Capital Markets Research Program (June 18, 1970)
Messrs. D. E. Brewer, S. Friedland, J. Vasoff and J. Wiginton.

Carleton Board of Education (June 28, 1970)
Mr. W. R. Dakin.

Chemical Institute of Canada (July 22, 1970)
Messrs. L. W. Shemilt, PhD., C. Simmonds and T. H. G. Michael.

Chevron Standard Ltd. (July 23, 1970)
Messrs. H. G. Nicholson and J. L. Lebel.

Chimo Gold Mines Ltd. (July 21, 1970)
Messrs. D. A. Huntley, A. C. Mosher and W. E. Goodlet.

Cominco Ltd. (July 30, 1970)
Messrs. R. Hendricks, R. J. Armstrong, A. M. Murray, H. T. Ommaney and C. H. B. Frère.

Community Funds and Councils of Canada (May 5, 1970)
Messrs. W. Goodman, G. Thompson and H. Stubbins.

Conwest Exploration Company Ltd. (July 20, 1970)
Messrs. C. R. Elliott, J. C. Lamacraft and M. P. Connell.

Co-operative Union of Canada (June 18, 1970)
Messrs. W. B. Melvin, N. J. Leger, J. J. Dierker, W. Bergen, A. Moran, Y. Daneau and J. J. Phalen.

Council of Forest Industries of British Columbia (July 29, 1970)
Messrs. G. L. Draeseke, P. Walton and D. Parkinson.

Cygnus Corporation Ltd. (June 2, 1970)
Messrs. R. A. Brown Jr., R. W. Campbell, R. B. Coleman, B. B. Rombough and R. Tolmie.

Denison Mines Ltd. (June 22, 1970)
Messrs. S. B. Roman, W. A. MacDonald, E. B. McConkey and P. Palmer.

Dominion Foundries and Steel Ltd. (May 7, 1970)
Messrs. F. H. Sherman, A. D. Laing and J. G. Sheppard.

Electronic Industries Association of Canada (June 2, 1970)
Messrs. W. R. Tate, R. Longstaffe, L. Balcer, D. Sheperd, E. G. Wright, J. Dunn and C. Harris.

Engineering Institute of Canada (June 16, 1970)
Messrs. W. J. McKay, P. Bournival, B. T. Kerr and A. N. Budden.

Equitable Income Tax Foundation (July 27, 1970)
Messrs. C. Lamont, H. Hansard and K. H. MacDonald.

La Fédération de Québec des Unions Régionales des Caisses Populaires Desjardins, (June 8, 1970)

La Fédération de Montréal des Caisses Desjardins,

La Fédération des Caisses D'Économie du Québec
Messrs. P.-E. Charron, R. Soupras, A. Lamarche, A. Morin, R. Chamberland, V. Dugas and R. Blais.

Finance, Department of (August 5, 1970)
The Honourable E. J. Benson, Minister of Finance; Messrs. J. R. Brown, Senior Tax Adviser; R. B. Bryce, Economic Adviser to the Prime Minister on the Constitution.

Graphic Arts Industries Association (April 30, 1970)
Messrs. P. Maclachlan, D. MacLellan, L. Henderson and F. M. Rolph.

Greater Vancouver Apartment Owners Association (July 30, 1970)
Messrs. O. A. Kuys, A. P. Downs and B. Forrest.

Gulf Oil Canada Ltd. (June 4, 1970)
Messrs. J. McAfee, D. S. Lyall, R. W. Cochrane and C. D. Shepard.

Hart, G. Arnold (June 11, 1970)
Messrs. G. A. Hart and N. E. Currie.

Heyding, L. F., F.C.A. (July 29, 1970)
Mr. L. F. Heyding.

Hollinger Mines Ltd. (May 26, 1970)
Messrs. A. L. Fairley Jr., P. C. Finlay, F. R. Hunt and J. Kinghorn.

Home Oil Company Ltd. (June 2, 1970)
Messrs. R. A. Brown Jr., R. W. Campbell, R. B. Coleman, B. B. Rombough and R. Tolmie.

Hudson Bay Mining and Smelting Company Ltd. (May 28, 1970)
Messrs. E. S. Austin, W. A. Morrice and K. S. Dalton.

Hudson Bay Oil and Gas Company Ltd. (June 2, 1970)
Messrs. L. J. Richards and F. J. Mair.

Hyland, J. Norman (July 27, 1970)
Mr. J. N. Hyland.

Imperial Oil Ltd. (June 4, 1970)
Messrs. W. O. Twaits, J. A. Armstrong, J. W. Hamilton, J. F. Barrett, S. E. Ewens, and E. D. K. Martin.

Independent Petroleum Association of Canada (June 2, 1970)
Messrs. G. E. Rourk, H. A. Ross, H. C. Van Rensselaer, F. R. Ruben, B. B. Rombough and R. J. Abercrombie.

Institute of Association Executives (July 28, 1970)
Messrs. L. I. Armstrong, M. Mair, D. S. Wood and L.-P. Letourneau.

Institute of Canadian Advertising (July 30, 1970)
Messrs. W. H. Wilkes and A. M. Shoults.

Institute of Chartered Accountants of Nova Scotia (July 23, 1970)
Messrs. C. W. Hayward, G. E. R. Zinck, H. L. Doane and R. L. Towler.

International Nickel Company of Canada Ltd. (June 16, 1970)
Mr. H. S. Wingate.

International Utilities Corporation (June 4, 1970)
Messrs. J. M. Seabrook and N. Phillips.

Interprovincial Steel & Pipe Corporation Ltd. (July 22, 1970)
Messrs. P. N. Thorsteinsson, J. N. Turvey and J. D. Maclennan.

Investment Dealers' Association of Canada (June 2, 1970)
Meesrs. J. S. Dinnick, W. E. Thompson, J. P. W. Ostiguy, J. F. Van Duzer, M.D. Cox, Hon. E. C. Manning, C. B. Mitchell and H. L. Gassard.

Investors Group (July 20, 1970)
Messrs. C. E. Atchison, J. N. W. Budd, A. S. Jackson and W. S. Walker.

Investors Group Trust Company Ltd. (July 20, 1970)
Messrs. J. N. W. Budd, J. D. McAlduff and B. J. Condy.

Investor-Owned Electric and Gas Utility Companies (April 28, 1970)
Messrs. A. W. Howard, A. R. Harrington, E. C. Bovey, N. F. Phillips, J. Maybin, C. F. Mallory and F. W. Hurst.

Iron Bay Trust (July 21, 1970)
Messrs. D. A. Huntley, A. C. Mosher and W. E. Goodlet.

Italian Business and Professional Men's Association of Ottawa (July 29, 1970)
Dr. P. La Delpha and Mr. P. Dioguardi.

Kelsey, Denham J., C.A. (July 30, 1970)
Mr. D. J. Kelsey.

Kilborn Engineering Ltd. (July 28, 1970)
Miss M. R. Smith, Messrs. K. M. Dewar and W. Storey.

King Resources Company (July 24, 1970)
Messrs, R. G. Duffy and G. E. Holmes.

Les Laiteries Leclerc Incorporées (July 27, 1970)
Mr. M. Leclerc.

Law Society of British Columbia (May 12, 1970)
Mr. D. J. Lawson.

Law Society of Upper Canada (May 12, 1970)
Messrs. W. C. C. Howland and S. Thom.

League of Concerned Canadians (July 30, 1970)
Messrs. C. Locke and R. Keyes.

Liberian Iron Ore Ltd. (April 23, 1970)
Messrs. B. Unne, J. Ekman, N. G. Hornhammar and B. F. Clarke.

Life Underwriters Association of Canada (June 9, 1970)
Messrs. R. L. Kayler, H. J. Crofts and J. A. Bowden.

Loram Ltd. (July 24, 1970)
Messrs. F. P. Mannix, E. Connelly and W. R. Lord.

Lougheed, Peter, M.L.A. (July 23, 1970)
Mr. P. Lougheed.

Maritime Electric Company Ltd. (April 28, 1970)
Mr. A. H. Peake.

Maritime Lumber Bureau (July 20, 1970)
Messrs. A. G. Rumbold, G. Fawcett, C. Ross and A. Byers.

Maritime Provinces Board of Trade (July 23, 1970)
Messrs. R. Manning, W. H. Houston and J. Zatzman.

Massey-Ferguson Ltd. (June 15, 1970)
Messrs. P. Breyfogle, J. Wleugel and M. J. Ellis.

William M. Mercer Ltd. (May 5, 1970)
Messrs. K. Macgowan and L. Coward.

Mining Association of Canada (May 28, 1970)
Messrs. J. Kostuik, J. L. Bonus, C. R. Elliott, D. B. Craig, D. H. Ford, K. E. Steeves and K. Gibson.

Montreal Board of Trade (July 28, 1970)
Messrs. N. L. Rappaport, G. D. Sutton, D. L. Robertson, D. R. Huggett, W. V. McNally, E. L. Tracey and A. Harper.

Montreal Museum of Fine Arts (June 15, 1970)
Messrs. C. Gonthier, D. G. Carter and S. Murphy, Ph.D.

MacMillan Bloedel Ltd. (June 11, 1970)
Messrs. R. W. Bonner, D. H. Parkinson and C. G. Chambers.

McIntyre Porcupine Mines Ltd. (May 28, 1970)
Messrs. J. K. Godin, J. A. Plaxton, A. G. Goodeve and R. D. Brown.

McVicar, J. S. (July 30, 1970)
Mr. J. S. McVicar.

National Association of Canadian Credit Unions (June 18, 1970)
Messrs. G. May, R. Ingram, F. Graham, J. Dierker, R. McMaster, L. Tendler and K. Weatherley.

National Cancer Institute of Canada (June 8, 1970)
Messrs. P. M. Draper, J. Mulholland, A. Martin and R. M. Taylor M.D.

National Farmers' Union (July 22, 1970)
Messrs. R. Atkinson and K. Higgins.

National Foreign Trade Council (June 15, 1970)
Mr. R. T. Scott.

National House Builders Association (June 25, 1970)
Messrs. S. E. Johnson, H. G. Shipp, H. K. Morley, C. G. Jones, B. J. Bernard and W. M. McCance.

National Hockey League Players' Association (July 28, 1970)
Messrs. A. Eaglesom and L. MacInnis.

National Revenue, Department of (August 4, 1970)
The Honourable J.-P. Côté, Minister of National Revenue; Mr. S. Cloutier, Deputy Minister, Taxation; Mr. R. W. Arbuckle, Director General, Tax Reform Task Force; Mr. J. F. Harmer, Assistant Deputy Minister, Legislation; Mr. S. E. Bernier, Assistant Deputy Minister, Operations; Mr. J. C. Ruddy, Director, Estate and Gift Tax Division; Mr. A. M. S. Allan, Chief Valuator, Estate and Gift Tax Division, Mr. D. R. Pook, Director General, Tax Policy; Mr. H. D. R. Bardon, Assistant Director General, Tax Reform Task Force.

National Sea Products Ltd. (July 23, 1970)
Messrs. H. P. Connor, C. R. MacFadden and H. B. Rhude.

National Trust Company Ltd. (June 9, 1970)
Messrs. E. H. Heeney and J. L. A. Colhoun.

New Brunswick, the province of (July 20, 1970)
Honourable L. G. Des Brisay, Minister of Finance; Mr. J. L. Williamson, Deputy Minister; Mr. A. D. Halye, Director of Administrative Services, Department of Finance.

Newfoundland Association of Architects (July 22, 1970)
Messrs. F. Noseworthy, D. Baird and G. W. Cummings.

Newfoundland Institute of Chartered Accountants (July 22, 1970)
Messrs. M. Bélanger and C. Baird.

Newfoundland and Labrador Chamber of Commerce (July 22, 1970)
Messrs. M. Bélanger, A. G. Ayre and R. W. Innes.

Newfoundland Light and Power Company Ltd. (April 28, 1970)
Mr. C. F. Mallory and D. C. Hunt.

Noranda Mines Ltd. (May 26, 1970)
Messrs. A. Powis, A. H. Zimmerman, D. A. Foster and D. H. Ford.

Nova Scotia Forest Products Association (July 23, 1970)
Messrs. J. Wilber, L. Doane, R. Murray, C. H. Sproule, M. Prest and D. Eldridge.

Nova Scotia Fruit Growers Association (July 23, 1970)
Messrs. E. Peill, P. Gervason, P. Elderkin and L. Coldwell.

Nova Scotia Light and Power Company Ltd. (April 28, 1970)
Mr. A. R. Harrington.

Nova Scotia Voluntary Economic Planning Board (July 23, 1970)
Messrs. F. C. Hudson, J. R. Mills, S. A. Reeves, R. L. Rhodenizer, E. C. Harris, D. W. Latimer and M. Van de sand.

Ontario Association of Architects (May 19, 1970)
Messrs. F. J. K. Nicol and P. J. Ranta.

Ontario Confederation of University Faculty Associations (June 8, 1970)
Messrs. C. Hanly and C. Hebdon.

Ontario, Government of the Province of (June 23, 1970)
Hon. C. S. McNaughton, Treasurer of Ontario and Minister of Economics; Mr. H. I. Macdonald, Deputy Treasurer of Ontario and Deputy Minister of Economics; Dr. T. M. Russell, Director, Taxation and Fiscal Policy Branch; Mr. D. Allan, Taxation and Fiscal Policy Branch; Dr. F. Ismail, Taxation and Fiscal Policy Branch; Mr. D. McClellan, Comptroller of Revenue, Ontario.

Pipe Line Contractors Association of Canada (July 24, 1970)
Messrs. W. Gant, A. H. Lambert and G. R. Hodson.

Professional Art Dealers Association of Canada (July 23, 1970)
Mrs. K. Hoffman, Mrs. M. Goddard, Messrs. W. Moos and H. H. Stikeman.

Prospectors and Developers Association (May 26, 1970)
Messrs. J. J. Rankin, W. C. Campbell and J. Hough.

Province of Quebec Chamber of Commerce (June 16, 1970)
Messrs. D. N. Byers, M. H. Caron, G. Charest, R. C. Alary and V. St-Onge.

Public Service Alliance of Canada (April 30, 1970)
Messrs. W. D. Doharty, R. C. Deslauriers and T. Cole.

Rayonnier Canada B.C. Ltd. (July 30, 1970)
Messrs. G. S. J. Bowell, R. W. Blatchley and E. C. Dixon.

Regina Bottlers Ltd. (July 22, 1970)
Mr. M. Sandomirsky.

Regina Chamber of Commerce (July 22, 1970)
Messrs. O. J. Keehr, K. R. MacLeod and I. Forbes.

Retail Council of Canada (April 30, 1970)
Messrs. A. J. McKechan, D. E. Knechtel, J. W. Irwin, G. E. Cronkwright, H. Gaynor and G. E. Hall.

James Richardson and Sons Ltd. (July 20, 1970)
Messrs. G. T. Richardson, G. Lawson, N. J. Alexander, J. T. Ellis, F. B. Lamont, F. N. Hughes and W. Clendenning, Ph.D.

Rio-Tinto-Zinc Corporation Ltd. (June 15, 1970)
Messrs. H. W. Macdonell, D. Harlow, J. Wilson and D. Timbrell.

Royal Architectural Institute of Canada (May 19, 1970)
Messrs. G. R. Arnott, C. F. T. Rounthwaite, and J. Nelligan.

Royal College of Physicians and Surgeons of Canada (May 14, 1970)
Messrs. R. C. Dickson, M.D., R. B. Salter, M.D., and J. Graham, M.D.

Royal Securities Corporation Ltd. (April 28, 1970)
Mr. A. S. Gordon.

Saint John Board of Trade (July 20, 1970)
Messrs. K. F. Baldwin, I. Mowatt, B. Ward, R. Whynott and E. J. Roderick.

Saint John Port and Industrial Development Commission (July 20, 1970)
Messrs. J. K. Logan, W. J. Wienand and Dr. S. H. Weyman.

Saskatchewan Chamber of Commerce (July 22, 1970)
Messrs. A. R. Burroughs and W. Wolf.

Saskatchewan, Government of (July 22, 1970)
Hon. D. G. Steuart, Provincial Treasurer; Messrs. D. Dombrowsky, Deputy Provincial Treasurer and R. Lloyd, Director, Budget Bureau.

Saskatchewan Wheat Pool Employees Association (July 22, 1970)
Messrs. W. G. Gilbey and G. Mills.

Saskatoon Board of Trade (July 22, 1970)
Messrs. R. H. Smith, M. Belsher, H. C. Pinder and M. Shaw.

Service Clubs of Canada (June 8, 1970)
Messrs. J. R. Flummerfelt, S. Benjamin, E. Twizell, W. Des Noyers, L. Girouard, B. Parent, W. Whelan, B. Francis, R. Benoit, R. Lortie, Y. Goulet, J. Hindson and C. Rolph.

Shell Canada Ltd. (June 4, 1970)
Messrs. H. Bridges, R. F. Winfield, W. A. Greenman and Z. P. Pokrupa.

Silverwood Dairies Ltd., (July 29, 1970)

Silverwood Employee Holding Ltd., (July 29, 1970)

Silverwood Investors Ltd. (July 29, 1970)
Messrs. J. F. Robinson and W. I. Barton.

Solid-Earth Science Study Group (May 28, 1970)
Doctors R. Blais, D. R. Derry, G. G. L. Henderson and H. O. Siegel.

Song in Your Heart Publishing Company (July 28, 1970)
Mr. A. Parker.

Steel Company of Canada Ltd. (May 7, 1970)
Messrs. H. M. Griffith, H. J. Brown and R. E. Karr.

Steel Industry of Canada (May 7, 1970)
Messrs. H. M. Griffith, N. J. Brown, F. H. Sherman, D. S. Holbrook and J. B. Barber.

Sullivan Mining Group Ltd. (June 8, 1970)
Messrs. J. J. Beauchemin, A. Beauchemin, R. J. Lafleur and F. Cordeau.

Syncrude Canada Ltd. (June 28, 1970)
Messrs. P. N. Thorsteinsson and F. K. Spragins.

Texaco Canada Ltd. (June 4, 1970)
Messrs. A. G. Farquharson, D. F. Bentley, O. C. Windrem and K. O. Fowler.

Toronto, the Board of Trade of Metropolitan (June 9. 1970)
Messrs. J. W. Kerr, D. S. Anderson, P. T. Clark, S. E. Edwards, S. Friedland, J. K. Gibson, and R. M. Wingfield.

Toronto Real Estate Board (July 31, 1970)
Messrs. H. H. Stikeman, B. R. B. Magee, J. Strung, D. B. Kirkup and R. J. Dart.

Toronto Stock Exchange (June 22, 1970)
Messrs. J. R. Kimber, J. B. Pitblade, J. P. Bunting, J. Hutchinson, W. H. A. Thorburn, D. G. Lawson, T. R. Bradbury, W. L. Somerville and H. W. F. McKay.

Trans Canada Pipelines Ltd. (June 16, 1970)
Messrs. J. W. Kerr, G. W. Woods, R. F. Sim and R. G. Wall.

Travel Industry Association of Canada (July 28, 1970)
Messrs. D. M. Waller, I. C. Pollack, F. G. Brander, C. G. Burton, J. Sibbald and R. A. Giles.

Trust Companies Association of Canada (June 9, 1970)
Messrs. C. F. Harrington, E. J. Brown, M. D. Lebbell, V. G. Hobbes, J. K. Allison, F. D. T. Bray, J. L. A. Colhoun, E. F. K. Nelson and J. Sayers.

Unifarm (July 23, 1970)
Messrs. P. Babey and E. Allan.

University of British Columbia (July 29, 1970)
Messrs. R. M. Clark, PhD., D. B. Fields and A. M. Moore.

Urban Development Institute (Canada) (June 25, 1970)
Messrs. M. Webber, W. Goodman, E. Marchant, P. A. Sanderson, R. Shaw, V. Krepart and W. Badun.

Vancouver Board of Trade (June 9, 1970)
Messrs. E. W. Disher, D. H. Parkinson, P. Walton and A. R. Ilersic.

Vanier Institute of the Family (July 27, 1970)
Mrs. B. Plumptre, Messrs. S. Sutton, W. Dyson and W. A. Macdonald.

Victoria Real Estate Board (July 28, 1970)
Messrs. E. Charman, P. D. P. Holmes and D. Moore.

Western International Hotels Ltd. (July 28, 1970)
Messrs. E. Larson and P. N. Thorsteinsson.

Weston, George Ltd. (June 22, 1970)
Messrs. G. E. Creber, J. K. Gibson and P. F. Connell.

Winnipeg Chamber of Commerce (July 20, 1970)
Messrs. W. L. Wardrop, D. A. Tomlin, H. Pintea and E. McCormick.

Woodward Companies (July 28, 1970)
Messrs. C. N. Woodward, W. G. Skinner and P. N. Thorsteinsson.

Young Presidents' Organization Incorporated (July 29, 1970)
Messrs. H. Hallward, G. Godbout, J. Dinsmore and F. Rolph.

## Appendix "B"

# List of Briefs Presented to the Committee in Written Form

Mr. R. S. Adamson, Vancouver, B.C.

American Growth Fund Limited, Toronto, Ontario.

Anglo American Corporation of Canada Limited, Toronto, Ontario.

Anglo Canadian Shipping Company Limited, Vancouver, B.C.

Annapolis Valley Affiliated Boards of Trade, Middleton, N.S.

The Association of Professional Engineers of the Province of British Columbia, Vancouver, B.C.

The Association of Professional Engineers of British Columbia, Prince George Branch.

Association of Universities and Colleges of Canada, Ottawa, Ontario.

Aviation Electric Pacific Limited, Vancouver, B.C.

The Pension Fund Society of the Bank of Montreal, Montreal, P.Q.

Bayer Foreign Investments Limited, Toronto, Ontario.

R.A. Beamish Stores Co. Ltd., Ottawa, Ontario.

J. M. Bean and Company Limited, Vancouver, B.C.

Mr. Edward S. Bell, Ottawa, Ontario.

Board of Evangelism and Social Service, Toronto, Ontario.

Mrs. Daphne M. Bolton, London, Ontario.

Bowling Proprietors' Association of British Columbia, Vancouver, B.C.

BP Canada (1969) Limited, Montreal, P.Q.

Brascan Limited, Toronto, Ontario.

Golder, Brawner and Associates Ltd, Vancouver, B.C.

(The) British Columbia Bond Dealers Association, Vancouver, B.C.

(The) British Columbia Chamber of Commerce Vancouver, B.C.

British Columbia Road Builders Association, Vancouver, B.C.

Robert A. Brocklebank, Surrey, B.C.

The Budd Automotive Company of Canada Limited, Kitchener, Ontario.

The Building Owners and Managers Association of Canada, Vancouver, B.C.

Calgary Chamber of Commerce, Calgary, Alberta.

The Calgary Jaycees, Calgary, Alberta.

W. C. Calvin, Vancouver, B.C.

Douglas C. Campbell, Vancouver, B.C.

The Canadian Agricultural Chemicals Association, Montreal, P.Q.

Canadian Association of Broadcasters, Ottawa, Ontario.

Canadian Association of Movers, Ottawa, Ontario.

Canadian Association of Optometrists, Ottawa, Ontario.

Canadian Association of University Teachers, Montreal, P.Q.

Canadian Book Publishers' Council, Toronto, Ontario.

Canadian Breweries Limited, Toronto, Ontario.

Canadian Business Equipment Manufacturers Association Incorporated, Rexdale, Ontario.

Canadian Council of Furniture Manufacturers, Ottawa, Ontario.

(The) Canadian Credit Men's Association Limited, Toronto, Ontario.

Canadian Delhi Oil Limited, Calgary, Alberta.

Canadian Electrical Distributors Association, Toronto, Ontario.

The Canadian Federation of Retail Grocers, Islington, Ontario.

Canadian Food Brokers Association, Toronto, Ontario.

Canadian Forest Products Limited, Vancouver, B.C.

Canadian Imperial Bank of Commerce, Toronto, Ontario.

The Canadian Institute of Mining and Metallurgy, Montreal, P.Q.

Canadian International Power Company Limited, Montreal, P.Q.

Canadian Manufacturers of Chemical Specialties Association, Montreal, P.Q.

Canadian Museums Association, Ottawa, Ontario.

Canadian Numismatic Association, Willowdale, Ontario.

Canadian Office Products Association, Toronto, Ontario.

Canadian Pharmaceutical Association, Toronto, Ontario.

Canadian Plumbing and Mechanical Contractors Association, Toronto, Ontario.

Canadian Reinsurance Company, Toronto, Ontario.

Canadian Research Committee on Taxation, Westmount, P.Q.

Canadian Retail Hardware Association, Toronto, Ontario.

Canadian Roofing Contractors' Association, Montreal, P.Q.

The Canadian Salt Company Limited, Montreal, P.Q.

Canadian School Trustees Association, Woodstock, Ontario.

Canadian SKF Company Limited, Scarborough, Ontario.

Canadian Security Management, Toronto, Ontario.

Canadian Superior Oil Limited, Calgary, Alberta.

Canadian Westinghouse Company Limited, Hamilton, Ontario.

J. M. Carr, D. Phil, Victoria, B.C.

Mrs. Jelka Car, Burnaby, B.C.

Case Existological Laboratories Ltd., Victoria, B.C.

(The) Certified General Accountants of Canada, Toronto, Ontario.

Chapman, Wood & Griswold Limited, North Vancouver, B.C.

The Chartered Institute of Secretaries in Canada, Winnipeg, Manitoba.

The Montreal District Chamber of Commerce, Montreal, P.Q.

Chemcell Limited, Montreal, P.Q.

E. O. Chisholm, Vnacouver, B.C.

City of Calgary, Calgary, Alberta.

Brock F. Clarke, Montreal, P.Q.

Mr. Pat Clever, Toronto, Ontario.

Dr. Joe W. Cluff, Vancouver, B.C.

The Coal Operations' Association of Western Canada, Calgary 2, Alberta.

The College of Family Physicians of Canada, Don Mills, Ontario.

The Communist Party of Canada, Toronto, Ontario.

The Confederation of British Industry, London, Ontario.

The Consumers Gas Company, Toronto, Ontario.

W. E. Couling, West Vancouver, B.C.

Crown Zellerbach Canada, Vancouver, B.C.

Davies, Ward & Beck, B. & S, Toronto, Ontario.

Dawson Creek Chamber of Commerce, Dawson Creek, B.C.

Deloitte, Plender, Haskins & Sells, Toronto, Ontario.

A. Deutsch, Montreal, P.Q.

Dilworth, Secrod, Mergher and Associates Limited, Toronto, Ontario.

Dolmage, Campbell and Associates, Vancouver, B.C.

Downtown Business Association, Vancouver, B.C.

Dunwoody and Company, Vancouver, B.C.

Dynasty Explorations Limited, Vancouver, B.C.

Mr. Douglas Eckel, Woodstock, Ontario.

Edmonton Chamber of Commerce, Edmonton, Alberta.

Edmonton Rental Accommodation Association, Edmonton, Alberta.

Mr. Stanley Edwards, Toronto, Ontario.

Elgistan Limited, Montreal, P.Q.

Falconbridge Nickel Mines Limited, Toronto, Ontario.

Federation of Automobile Dealer Association of Canada, Toronto, Ontario.

The Federation of Canadian Advertising and Sales Clubs, Montreal, P.Q.

Nick Filyk, Calgary, Alberta.

Financial Executives Institute, Montreal, P.Q.

John M. Fincham, Toronto, Ontario.

Ford Motor Company of Canada Limited, Oakville, Ontario.

Mr. Donald Fox, Oshawa, Ontario.

Mr. S. P. Fox, Vancouver, B.C.

Mr. Edward Furlong, Willowdale (North Toronto), Ontario.

Fraser and Beatty, Barristers, Toronto, Ontario.

Gairdner and Company Limited, Toronto, Ontario.

Gardner, McDonald and Company, Vancouver, B.C.

General Enterprises Limited, Whitehorse, Yukon.

General Publishing Company Limited, Don Mills, Ontario.

Mr. E. B. Gillanders, Surrey, B.C.

Greater Toronto Business and Professional Federation, Toronto, Ontario.

Greater Vancouver Visitors and Convention Bureau, Vancouver, B.C.

Great Canadian Oil Sands Limited, Toronto, Ontario.

Great Plains Development Company Limited. Calgary, Alberta.

Real Estate Board of Greater Vancouver, Vancouver, B.C.

Grocery Products Manufacturers of Canada, Ottawa, Ontario.

Gulf Minerals Company, Denver, Colorado.

Gulf Oil Corporation, Pittsburgh, P.A.

The Hamilton Cotton Company Limited, Hamilton, Ontario.

Hamilton and District Visitors and Convention Bureau, Hamilton, Ontario.

Mr. R. H. B. Hector, Newmarket, Ontario.

Dr. R. C. Heim, North Vancouver, B.C.

Helix Investments Limited, Toronto, Ontario.

Home Hardware Store Limited, St. Jacobs, Ontario.

House of Stein Electronics Limited, Vancouver, B.C.

Hrennikoff, Alexander P. Vancouver, B.C.

Hudson Plating Company Limited, Vancouver, B.C.

Home Industries Limited. Vancouver, B.C.

Husky Oil Limited, Calgary, Alberta.

I.B.M. Canada Limited, Don Mills, Ontario.

Imperial Tobacco Company of Canada Limited, Montreal, P.Q.

The Institute of Profit Sharing, Toronto, Ontario.

Insurance Bureau of Canada, Toronto, Ontario.

International Air Transport Association, Ottawa, Ontario.

International Capital Corporation Limited, Montreal, P.Q.

Canadian Council International Chamber of Commerce, Montreal, P.Q.

International Harvester Company of Canada Limited, Hamilton, Ontario.

Interprovincial Pipe Line Company, Toronto, Ontario.

Mr. R. H. Janes, Vancouver, B.C.

Mr. M. W. Jason, Ottawa, Ontario.

Mr. T. Jeske, Burnaby, B.C.

Mr. Frederick W. P. Jones, London, Ontario.

Mr. C. C. Kamm, Vancouver, B.C.

Ker, Priestman, Keenan and Associates Limited, Victoria, B.C.

Mr. Eugene W. King, Vancouver, B.C.

Kingston (Committee of Township of) Kingston, Ontario.

The Kitchener Chamber of Commerce, Kitchener, Ontario.

John Labatt Limited, London, Ontario.

Lea and Associates Limited, Vancouver, B.C.

W. S. Leggat, Kelowna, B.C.

Stuart C. Legge, Toronto, Ontario.

Lehberg, Morrison and Company, Montreal, P.Q.

Upper Lakes Shipping Limited and Affiliated Companies, Toronto, Ontario.

Mr. Allan Leith, Vancouver, B.C.

Mr. Allan Liggins, Coquitlam, B.C.

Lloyd A. Lindsay, Toronto, Ontario.

Link Hardware Company Limited, Edmonton, Alberta.

Lionel Arthur, Nanaimo, B.C.

London Chamber of Commerce, London, Ontario.

London and District Labour Council London, Ontario.

Mr. Stan. F. Long, Fenelon Falls, Ontario.

The Manitoba Association of Architects, Winnipeg, Manitoba.

The Manitoba Hotel Association, Winnipeg, Manitoba.

Maple Leaf Gardens Limited, Toronto, Ontario.

Markborough Properties Limited, Toronto, Ontario.

Mr. N. J. Martinusen, Campbell River, B.C.

Mr. G. Donald Meades, Calgary, Alberta.

Monarch Investments Limited, Toronto, Ontario.

Montreal Dress and Sportswear Manufacturers' Guild Montreal, P.Q.

Montreal Society of Financial Analysts, Montreal, P.Q.

The Mortgage Insurance Company of Canada, Toronto, Ontario.

Mulek and Sembaliuk, Edmonton, Alberta.

Murry-Latta Machine Company Limited, Vancouver, B.C.

Mr. J. R. MacKenzie, Calgary, Alberta.

Mr. J. Mardon of MacMillam Bloedel Limited, Vancouver, B.C.

Miss Margaret H. McFarlane, Toronto, Ontario.

Mr. D. D. C. McGeachy, London, Ontario.

Mr. J. E. McIntosh, Vancouver, B.C.

Mr. S. B. McLauglin, Port Credit, Ontario.

Mr. A. W. F. McQueen, Toronto, Ontario.

McLaughlin May, Soward Morden and Bales, Toronto, Ontario.

Narod Construction Limited, Vancouver, B.C.

National Association of Tobacco and Confectionery Distributors, Montreal, P.Q.

New Westminster Chamber of Commerce, New Westminster, B.C.

F. C. J. Neylan, Vancouver, B.C.

Noiseux, Lyonnais, Gascon, Bédard, Lussier, Senécal and Associates, Montreal, P.Q.

Mr. Gerald A. Noël, North Vancouver, B.C.
Mr. Robert S. Norminton, Burlington, Ontario.
North America Business Equipment Limited, Hamilton, Ontario.
North Vancouver Chamber of Commerce, North Vancouver, B.C.
Odishaw and Shirkey Regina Inn, Regina, Saskatchewan.
Ontario Association of Art Galleries, Toronto, Ontario.
Ontario Association of Cemeteries and Crematoria, Willowdale, Ontario.
Ontario Flue-Cured Tobacco Growers' Marketing Board, Tillsonburg, Ontario.
Ontario Grain and Feed Dealers Association, Toronto, Ontario.
Ontario Hydro, Toronto, Ontario.
Ontario Insurance Agents' Association, Toronto, Ontario.
Ontario Petroleum Institute Incorporated, Chatham, Ontario.
The Ontario Retail Lumber Dealers Association, Toronto, Ontario.
Ontario Veterinary Association, Guelph, Ontario.
Owen Sound Chamber of Commerce, Owen Sound, Ontario.
Pacific Petroleums Limited, Calgary, Alberta.
Patino Mining Corporation, Toronto, Ontario.
Pensioners Concerned, Toronto, Ontario.
Mr. Arthur Phillips, Vancouver, B.C.
Cemp Investments Limited, Montreal, P.Q.
Trizec Corporation Limited, Montreal, P.Q.
Picklands Mather and Company, Cleveland, Ohio.
Planning Management Services Limited, Toronto, Ontario.
Porcupine Branch of Prospectors and Developers Association, Timmins, Ontario.
Price Waterhouse and Company, Toronto, Ontario.
Professional Engineers of Alberta, Edmonton, Alberta.
Professional Institute of Public Service of Canada, Ottawa, Ontario.
Proprietary Association of Canada, Toronto, Ontario.
Quebec Furniture Retailers Corporation, Montreal, P.Q.
Mr. Frank Rahs, Richmond, B.C.
Reed Shaw Osler Limited, Toronto, Ontario.
Reid, Collins and Associates Limited, Vancouver, B.C.
Mr. Barry D. Reive, Toronto, Ontario.
Research Council of Alberta, Edmonton 7, Alberta.
Rich-Webster and Company Limited, Vancouver, B.C.
Riddell, Stead and Company, Montreal, P.Q.
Rio Algom Mines Limited, Toronto, Ontario.
Robertson Kolbeins Teevan and Gallaher, Limited, Vancouver, B.C.
Professor B. A. Robinson, Wolfville, N.S.
Mr. T. Roden, Windsor, Ontario.
Rothmans of Pall Mall Canada Limited Toronto, Ontario.
Royal Canadian Golf Association, Toronto, Ontario.
Edward J. Russell Limited, North Vancouver, B.C.
Ryan Investments Limited, Vancouver, B.C.
St. John's Cemetery on the Humber, Toronto, Ontario.
J. G. Sanderson, Burnaby, B.C.
Sarkari, N.P.D. Vancouver, B.C.
Scott Fenton, Toronto, Ontario.
Scott Misener Steamships Limited, St. Catherines, Ontario.
Senior Citizens' Forum of Montreal, Montreal, P.Q.
Dr. K. J. Serdula, Deep River, Ontario.
Sherritt Gordon Mines Limited, Toronto, Ontario.
Smith' C.T. Vancouver, B.C.
The Society of the Plastics Industry of Canada, Don Mills, Ontario.
Specification Writer Association of Canada, Toronto, Ontario.
Standard Oil Company of British Columbia, Vancouver, B.C.
Steed and Evans Limited, Mape, Ontario.
Steetley Industries Limited, Hamilton, Ontario.
Steinberg's Limited, Montreal, P.Q.
Stekl George, Vancouver, B.C.
Mr. T. M. Stokie, Fernie, B.C.
Mr. Vladimir Salyzyn. Edmonton, Alberta.
D. A. Stuart Oil Company Limited, Toronto, Ontario.
Sun Oil Company Limited, Toronto, Ontario.
W. Don Sutherland, Blind River, Ontario.
Syracuse Oils Limited, Calgary, Alberta.
S & S Electric Canada Limited, Rexdale, Ontario.
Mr. E. J. Tassonyi, White Rock, B.C.
Taylor Woodrow Holdings Limited, Toronto, Ontario.
Teck Corporation Limited, Toronto, Ontario.

(The) Saskatchewan Association of Architects, Saskatoon, Saskatchewan.

Texaco Incorporated, New York, N.Y.

Thermo-Fridge Parts Limited, Islington, Ontario.

Thomson, Rogers, Toronto, Ontario.

Toilet Goods Manufacturers Association, Toronto, Ontario.

The Trustees of the Toronto General Burying Grounds, Toronto, Ontario.

Toronto Hone Builders' Association, Willowdale, Ontario.

Toronto Junior Board of Trade, Toronto, Ontario.

Toronto Secondary School Teachers, Toronto, Ontario.

The Toronto Society of Financial Analysts, Toronto, Ontario.

Touche Ross and Company. Montreal, P.Q.

Trinity Managed Investments Limited, Toronto Ontario.

Truck Loggers Association, Vancouver, B.C.

Ulster Petroleums Limited, Calgary, Alberta.

Union Carbide Canada Limited, Toronto, Ontario.

F. W. Voisin Construction Limited, Kitchener, Ontario.

Wahn, Mayer, Smith, Greber, Lyons, Torrance and Stevenson, Toronto, Ontario.

Shaw and Begg Limited, Toronto, Ontario.

S. G. Warburg and Company Limited, Toronto Ontario.

Waterloo Federal Liberal Association, Bridgeport, Ontario.

Welsford, H. W., Westmount, P.Q.

Westcoast Transmission Company Limited, Vancouver, B.C.

West-Man Regional Development Incorporated, Brandon, Manitoba.

The West Vancouver Chamber of Commerce, West Vancouver, B.C.

Western Mines Limited, Vancouver, B.C.

Whitehorse Chamber of Commerce, Whitehorse, Yukon.

Winnipeg Real Estate Board, Winnipeg, Manitoba.

Wolff, Ron, (Graduate Studerns' Union) Toronto, Ontario.

Wood Gundy Security Limited, Toronto, Ontario.

Wooley Dod and MacCrimmon Surveys Limited, Calgary, Alberta.

Zingle, D. F., Montreal, P.Q.

**Appendix "C"**

# List of those Submitting Recommendations and Comments to the Committee

Abitibi Paper Company, Toronto, Ontario.

Accessoires d'Auto Laurentien Ltée, Chicoutimi, P.Q.

Mr. Nevin R. Adams, Toronto, Ontario.

Adams S. A. Welder Products, Sault Ste-Marie, Ontario.

Addison-Wesley (Canada) Limited, Don Mills, Ontario.

Mr. Larry M. Agranove, London, Ontario.

Mrs. A. C. Agnew, London, Ontario.

Aho. Aero E., Vancouver, B.C.

Aikenhead Hardware Limited, Don Mills, Ontario.

Alberta Association of Insurance Adjusters, Calgary, Alberta.

Alberta Association of Municipal Districts and Counties, Edmonton, Alberta.

Alberta Distillers Limited, Edmonton, Alberta.

Alfan Properties Limited, Vancouver, B.C.

Amalgamated Construction Association of B.C., Vancouver, B.C.

Mr. D. M. Amoore, Montreal, P.Q.

Morris Ander, Toronto, Ontario.

Andrew, James M., Ottawa, Ontario.

Anglo United Development Corporation Ltd, Toronto, Ontario.

R. Angus Alberta Limited, Edmonton, Alberta.

Mr. D. B. Annan, Oakville, Ontario.

Annapolis Valley Affiliated Boards of Trade, Middleton, N.S.

Arbuckle, Govett & Company Limited, Montreal, P.Q.

Archibald, James T., Vancouver, B.C.

The Arctic Institute of North America, Montreal, P.Q.

Mr. D. R. Argus, Toronto, Ontario.

Argus Corporation Limited, Toronto, Ontario.

Dr. C. A. Ariss, B.C.

Arkwright, B. H., Vancouver, B.C.

Leslie G. Arvay, Toronto, Ontario.

Mr. S. W. Askley, P. Eng., Toronto, Ontario.

Association of British Columbia Foresters, Vancouver, B.C.

The Association of Kinsmen Clubs, Regina, Saskatchewan.

The Association of Summer Villages of Alberta, Edmonton, Alberta.

Atkins, C. B., Victoria, B.C.

Mr. George N. Attridge, Toronto, Ontario.

Mr. C. Authier, Rouyn, Québec.

Automotive Trades Association (Manitoba) Incorporated, Winnipeg, Manitoba.

Avco Delta Corporation Canada Limited, London, Ontario.

Mr. J. W. Aylward, Oakville, Ontario.

Mr. Edward M. Aziz, London, Ontario.

Mr. Brian Babcock, London, Ontario.

Mr. Allan D. Baker, Oakville, Ontario.

Mr. Rodney H. Baird, Thornhill, Ontario.

Mr. John E. Baldwin, West Vancouver.

Mr. Gordon Bale.

Mr. B. W. Ball, Toronto, Ontario.

Mr. Clive W. Ball, Vancouver, B.C.

Mr. Robert Ballantyne, Hamilton, Ontario.

Bamfield Utilities Limited, Vancouver, B.C.

Mr. Walter S. Bannister, Edmonton, Alberta.

Mr. Arthur Barker, Vancouver, B.C.

Mr. H. J. Barratt, Vancouver, B.C.

J. W. Barrington & Son Limited, Toronto, Ontario.

Mr. Albert Barrows, Surrey, B.C.

Mr. W. R. Barry, Calgary, Alberta.

Mr. H. Bartyzel, Vancouver, B.C.

Mr. P. Baskin, Vancouver, B.C.

Mr. C. Bass, Toronto, Ontario.

Bayfield-Nares Islanders' Association, Toronto, Ontario.

Bay-King Motors, Hamilton, Ontario.

Bayview Chrysler Dodge Limited, Sarnia, Ontario.

Bearing Specialists Association, Chicago, Illinois, U.S.A.

Beaubier Cueleanaere & Priel, Saskatchewan.

Mr. William A. Becker, Islington, Ontario.

The Beechwood Cemetery Company, Ottawa, Ontario.

Beekman Printing Limited, Prince George, B.C.

Belisle Automobiles Limited, Ottawa, Ontario.

Mr. A. G. Bell, Youbou, B.C.

Mr. S. B. Bendon, Oromocto, N.B.

Mrs. S. Berbynuk, Tilbury, Ontario.

Mrs. Han Beretta, London, Ontario.

Mr. J. Bergeron, Kapuskasing, Ontario.

Mr. R. J. Bernardo, Toronto, Ontario.

Mr. R. E. Bethell, Thornhill, Ontario.

Mr. R. J. Bickford, West Vancouver, B.C.

Bird Construction Company Limited, Toronto, Ontario.

Dr. B. A. Bishop, D.D.S., Vernon, B.C.

Miss Jacqueline Bisson, Buckingham, P.Q.

Mr. Fernand Bissonnette, Shillington, Ontario.

Mr. H. L. Blachford Limited, Montreal, P.Q.

Mr. R. S. Blackett, Calgary, Alberta.

The Board of Education, Willowdale, Ontario.

Mr. & Mrs. B. W. Bodner, Vancouver, B.C.

Mr. J. W. Boehmer, Don Mills, Ontario.

Mr. T. R. Boggs, Ladysmith, B.C.

Mr. Pierre Boiron, Toronto, Ontario.

Bourgeois Motors Limited, Midland, Ontario.

Mr. D. W. Bourne, Toronto, Ontario.

Mr. & Mrs. D. J. Bowering, Vancouver, B.C.

H. L. Bowes & Son Limited, Englehart, Ontario.

Mr. E. W. Bowness, Calgary, Alberta.

Mr. Rolland Boyer, Dorval, P.Q.

Mr. Peter Boxall, St. Catharines, Ontario.

Mr. A. J. Bradford, Vancouver, B.C.

Mr. Joseph F. Bradley, Vancouver, B.C.

Bradley-Vale Advertising Limited, Toronto, Ontario.

D. K. Bragg, Vancouver, B.C.

Brandon Automobiles Limited, Brandon, Manitoba.

Brantford Volkswagen Limited, Brantford, Ontario.

G. S. Brant Petroleum Limited, Calgary, Alberta.

Mr. Claude Brausseau, Noranda, P.Q.

Mr. Donald Brausseau, Noranda, P.Q.

Mrs. W. K. Brawnell, Brentwood Bay, B.C.

Bray Motors Limited, Sundridge, Ontario.

Mr. J. E. Brent, Don Mills, Ontario.

Mr. R. C. Brewer, Kitimat, B.C.

Bricklayers' and Masons' International Union, London, Ontario.

Mr. G. K. Bright, Burnaby, B.C.

British Columbia Dry Cleaners and Launderers Association, Delta, B.C.

British Columbia Motels and Resorts Association, Vancouver, B.C.

Mr. Ronald Broadbent, Weston, Ontario.

Broadway Industrial Trucking Limited, Vancouver, B.C.

Mr. D. B. Brown, Scarborough, Ontario.

Mr. John A. Brueacher,

Mr. Stuart B. Bruce, London, Ontario.

Mr. S. L. R. Brunton, Toronto, Ontario.

Miss Mary Buchanan, Montreal, P.Q.

Mr. D. C. T. Bullen, Comox, B.C.

Mr. Roman Burda, Vancouver, B.C.

Elliott A. Burnford, Montreal, P.Q.

Mr. Jean Burelle, Rémigny, P.Q.

Burlington Chamber of Commerce, Burlington, Ontario.

Mr. James C. Butler, London, Ontario.

Mr. Walter N. Butz, Kitchener, Ontario.

Mr. Anthony Camisso, Toronto, Ontario.

Mr. D. A. Campbell, Baie d'Urfe, P.Q.

Mr. Robert Campbell, Toronto, Ontario.

Mr. L. W. Campbell, Kingston, Ontario.

Mr. W. D. Campbell, Burnaby, B.C.

Canada Safety Council, Ottawa, Ontario.

Canada Trust Huron and Erie, London, Ontario.

Canadian Association of Graduate Schools, Vancouver, B.C.

Canadian Association for Latin America, Toronto, Ontario.

Canadian Builders Supply Association, Ottawa, Ontario.

Canadian Canvas Goods Manufacturers' Association, Willowdale, Ontario.

Canadian Chiropractic Association, Toronto, Ontario.

Canadian Engineering Publication Limited, Montreal, P.Q.

Canadian Fraternal Association, Don Mills, Ontario.
Canadian Fruit Wholesalers' Association, Ottawa, Ontario.
Canadian Gypsum Company Limited, Toronto, Ontario.
Canadian Heart Foundation, Ottawa, Ontario.
Canadian Heat Treaters Limited, Richmond, Ontario.
Canadian Home Manufacturers Association, Ottawa, Ontario.
Canadian Horticultural Council, Ottawa, Ontario.
Canadian Industrial Gas and Oil Limited, Calgary, Alberta.
Canadian Institute of Food Technology, Ottawa, Ontario.
Canadian Institute of Forestry, Montreal, P.Q.
Canadian Kitchen Cabinet Association, Ottawa, Ontario.
Canadian Lumbermen's Association, Ottawa, Ontario.
Canadian Paraplegic Association, Toronto, Ontario.
Canadian Power Squadrons, Toronto, Ontario.
Canadian Projects Limited, Vancouver, B.C.
Canadian Schools Trustees' Association, Woodstock, Ontario.
Canadian Society for Clinical Investigation, Edmonton, Alberta.
Canadian Society of Plant Physiologists, Sackville, N.B.
Canadian Society of Microbiologists, Saskatoon, Saskatchewan.
Canadian Toy Manufacturers Association, Toronto, Ontario.
Mr. N. Cannon, Toronto, Ontario.
Cardiff Estate Limited, Vancouver, B.C.
Cardinal Meat Specialists Limited, Mississauga, Ontario.
Mr. Alan S. Carr, St. Catharines, Ontario.
Mr. B. J. Carrigan, Burnaby, B.C.
Mr. B. T. Carroll, Port Credit, Ontario.
Mr. W. K. Carruthers, Port Credit, Ontario.
Ron Carson Limited, Prince George, B.C.
Mr. R. M. Carson, Regina, Saskatchewan.
Mr. T. O. Carss, Lachine, P.Q.
Mr. A. W. Carter, Vancouver, B.C.
Mr. Maurice Carter, Hamilton, Ontario.
Catalyptic Construction of Canada Limited, Sarnia, Ontario.
Mr. Ian D. Caunce, Willowdale, Ontario.
Centennial Lodge, Vancouver, B.C.
Central Algoma Board of Education, Bruce Mines, Ontario.
Chambers and Company Limited, Hamilton, Ontario.
Chamber of Mines of Eastern British Columbia, Nelson, B.C.
Mr. Gérard Charet, Sherbrooke, P.Q.
G. A. Checklin, Vancouver, B.C.
C. E. Choat & Company Limited, Halifax, N.S.
Mr. W. H. Christenssen, Burnaby, B.C.
Churchill Fall (Labrador) Corporation Limited, Montreal, P.Q.
Mr. Roméo Ciré, Chibougamau, P.Q.
Mr. T. R. Clemence, Rosemere, P.Q.
Clement's Drug Store Limited, Manitoba.
Mr. William Clisby, Toronto, Ontario.
Mr. John Cluff, Willowdale, Ontario.
Mr. M. E. Coates.
Mr. D. H. Cockburn, Thornhill, Ontario.
Mr. Maynard E. Cole, Edmonton, Alberta.
Collins Hames Pringle & Erickson, Calgary, Alberta.
Miss Mary Collins, Montreal, P.Q.
Colo-Proctology Clinic, Vancouver, B.C.
Community Building Supplies Limited, Toronto, Ontario.
Conenco International Limited, Don Mills, Ontario.
Confederation Coal & Coke Limited, Windsor, Ontario.
Mr. Martin P. Connell, Toronto, Ontario.
Consul Construction Consultant Ltd., Toronto, Ontario.
Convention & Tourist Bureau of Metropolitan Toronto, Toronto, Ontario.
Dr. A. B. Cooper, Duncan, B.C.
Cooper and Horton Ltd., Toronto, Ontario.
Mr. George S. Cooper, Mississauga, Ontario.
Mr. A. R. Copeman, Vancouver, B.C.
Copper Range Exploration Company Ltd., Vancouver, B.C.
Mrs. C. R. Corey, London, Ontario.
Mr. J. H. Corrigan, Kimberley, B.C.
Mr. R. E. Corrigan, Montreal, P.Q.
Mr. J. W. Cotton, Toronto, Ontario.
Mr. L. Cousen, Ottawa, Ontario.

Carrick, O'Connor, Coutts & Crane, Toronto, Ontario.
Mrs. H. B. Coxon, London, Ontario.
Mr. Ross Craig, Toronto, Ontario.
Cranbrook Tire Service Ltd., Cranbrook, B.C.
Mr. S. A. Crancall, Bolton, Ontario.
Crestview Securities Ltd., Calgary, Alberta.
Mr. W. A. Critchley, Willowdale, Ontario.
Mr. J. B. Cronyn, London, Ontario.
Mr. Howard Crowe, Slocan, B.C.
Mr. Steele Curry, Toronto, Ontario.
Mr. J. Curtis, Toronto, Ontario.
Mr. Arthur F. Cutten, Toronto, Ontario.
Mr. P. L. Dafoe, Vancouver, B.C.
Darnell Corporation of Canada Ltd., Toronto, Ontario.
Dartmouth Chamber of Commerce, Dartmouth, N.S.
Dastous Motors Ltd., Dalhousie, N.B.
Davco Industrial Sales Ltd., Toronto, Ontario.
Mrs. Jean A. Davidson, Vancouver, B.C.
Mr. Neil A. Davidson. Vernon, B.C.
Davis & Henderson Ltd., Don Mills, Ontario.
Dr. R. C. Davison, M.D., Winnipeg, Manitoba.
Dean's of Penticton, Penticton, N.B.
Delta Volkswagen Ltd., Hamilton, Ontario.
Mr. C. D. Denney, Edmonton, Alta.
Dr. L. R. Dennis, Clarisson, Ontario.
Dental Centre, Vancouver, B.C.
Mr. J. A. Devenny, Ottawa, Ontario.
Miss O. Diplock, London, Ontario.
Diversey (Canada) Ltd., Clarkson, Ontario.
Diversified International Products Ltd., Toronto, Ontario.
Mr. Dodd Q. Chu, M.D., Vancouver, B.C.
Dofasco Employees' Savings and Profit Sharing Fund, Hamilton, Ontario.
Miss D. M. Dohn, Vancouver, B.C.
Domequity Fund Ltd., Montreal, P.Q.
Dominion Trust Company, Toronto, Ont.
Howard R. Douglas, Toronto, Ont.
Mr. Alfred S. Dow, Pointe Claire, P.Q.
Mr. A. P. Downs, Vancouver, B.C.
Mr. A. Doyon, Noranda, P.Q.
Mr. R. I. Drury, Erickson, B.C.
Mr. Lucien Dubé, Abitibi, P.Q.
Dr. J. C. Ducharme, Montreal, P.Q.
Mr. E. W. Duder, Thornhill, Ont.
Mr. J. E. Duffield, West Vancouver, B.C.
Mr. W. R. Dunbar, Oakville, Ont.
Mr. J. A. Durfey, Winona, Ontario.
Mr. E. A. Durnford, Montreal, P.Q.
Dyke & Howard, Vancouver, B.C.
Mr. E. A. Earle, C.G.A., Calgary, Alberta.
Mr. R. Robert Easton, Q.C., Windsor, Ontario.
East Parry Sound Board of Education, Sundridge, Ont.
Echo Bay Mines Ltd., Edmonton, Alberta.
Edmonton Bar Association, Edmonton. Alberta.
Edmonton Motor Dealers Association, Edmonton, Alberta.
The Electrolyser Corporation Ltd., Toronto, Ontario.
Mr. J. F. Ellis, Toronto, Ontario.
Mr. W. G. Ellis, Victoria, B.C.
Mr. Norman Emerson, Brandon, Manitoba.
Mr. A. Engel, Napanee, Ont.
The Electrical Service League of British Columbia, Vancouver, B.C.
Mr. Odd I. Eidsvik, C.A., Prince Rupert, B.C.
Mr. Y. V. D. Engel, Montreal, P.Q.
Dr. E. S. Engen, M.D., Kamloops, Ontario.
Mr. Ellis A. Enridge, Burnaby, B.C.
Mrs. W. M. Erickson, Willowdale, Ont.
Envelope Makers Institute of Canada, Toronto, Ontario.
Espanola Board of Education, Espanola, Ontario.
Mr. Rudy Eswarin, Don Mills, Ont.
Etobicoke Underwater Club, Toronto, Ontario.
Mrs. D. G. Evans, Toronto, Ont.
Mr. W. F. Fairlie, Toronto, Ont.
Mr. G. R. Fairweather, Cornwall, Ont.
Mr. S. W. Faliszewski, Vancouver, B.C.
Mr. C. T. Farmer, N. Vancouver, B.C.
Mr. P. J. Farmer, Ottawa, Ontario.
Mr. Douglas Farr, Don Mills, Ont.
La Fédération des Caisses Populaires Acadiennes Ltée., Caraquet, N.B.
La Fédération des Femmes du Québec, Montreal, P.Q.
Mr. F. A. Fell, Toronto, Ontario.
Mr. N. Fenn, Toronto, Ont.
Mr. M. S. Ferguson, Burnaby, B.C.

Mr. T. R. Ferguson, Woodstock, Ont.
Mr. A. R. Ferracuti, Toronto, Ont.
Mrs. Muriel Fetherston, Sidney, B.C.
Mr. H. G. Field, Edmonton, Alberta.
Mr. W. D. Finn, Vqncouver, B.C.
Mr. C. D. FitzGerald, St. Andrews, N.B.
Mr. J. M. Fitzsimmons, Burnaby, B.C.
B. B. Flemming, Rossland, B.C.
Flowers Canada, Burlington, Ont.
Mr. R. A. Forbes, Waterloo, Ont.
Forest Oil Corporation, Calgary, Alberta.
Mr. R. G. Forsythe, Hamilton, Ont.
Mr. Jacques Fortin, Quebec, P.Q.
Mr. F. A. Forward, Vancouver, B.C.
Mr. D. L. Fraser, Renfrew, Ont.
Rev. J. Gordon Freeland, Willowdale, Ont.
Mr. Edward J. Frost, Crankbrook, B.C.
Mrs. R. Fromson, Vancouver, B.C.
Fruehauf Trailer Company of Canada Limited, Mississauga, Ont.
Mr. D. C. Fundak, Kitchener, Ont.
Mr. J. P. Gallagher, Calgary, Alta.
Mr. E. C. Gam, Toronto, Ont.
Garage Operators, Association of Ontario, Scarborough, Ont.
Garden Sales Nursery, Highland Creek, Ont.
Mr. Frederick G. Gardiner, Toronto, Ont.
Mr. Roland Gareau, Noranda, P.Q.
J. M. Boyd Garland, Brantford, Ont.
Garland Commercial Ranges Ltd., Toronto, Ontario.
Mr. Ernest C. Garrard, Dartmouth, N.S.
Mr. R. H. Garrett, W. Vancouver, B.C.
Mr. R. W. Garinger, Esterhazy, Sask.
Mr. A. Gasparro, Vancouver, B.C.
Ronald H. Gee, Vancouver, B.C.
Dr. Geggie, Wakefield, P.Q.
General Auto Parts of St. Hyacinthe, St. Hyacinthe, Que.
Mr. W. G. Gerry, Victoria, B.C.
Mr. N. G. Gibbons, Ottawa, Ont.
Mr. J. L. Gilbert, Willowdale, Ont.
Mr. E. L. Glass, London, Ont.
Mr. K. L. Godwin, Winnipeg, Man.
Mr. M. G. Goldenburg, Toronto, Ont.
Mr. J. D. Goldsworthy, Kitchener, Ontario.
G. W. Gooderham, Toronto, Ont.
Goodwill Bottling Ltd., Victoria, B.C.
Mr. & Mrs. Donald Gordon, Flornby. Ontario.
Gorrell & Grenkie, Morrisburg, Ont.
Mr. Leopold Gotshligg, Vancouver, B.C.
Mr. F. R. Gow, Bridgewater, N.S.
Mr. Bella Gowan, London, Ont.
Mr. B. F. H. Graham, Mississauga, Ont.
Graham & Graham, London, Ont.
Graham Electric Sales Ltd., Vancouver, B.C.
Grandview Ford Sales Ltd., Toronto, Ontario.
Mr. Ron Granger, Whitehorse, Yukon.
Mr. J. Douglas Grant, Toronto, Ont.
Mr. George R. Grant, Toronto, Ont.
Mr. W. F. Grant, Montreal, P.Q.
Greenbrier Holdings Ltd., Vancouver, B.C.
John G. Creig, Calgary, Alta.
Mr. Frank F. Gray, Calgary, Alta.
Mr. Gordon A. Green, Victoria, B.C.
Mr. Larry Green, Gravenhurst, Ont.
Grindrod Motor Sales Ltd., Picton, Ontario.
Mr. & Mrs. Robert Groulx, Pointe Gatineau, P.Q.
Mr. Werner Grundmann, Vancouver, B.C.
Mr. Harold & Max Haggarty, Belleville, Ontario.
Haldimand County Board of Education, Cayuga, Ontario.
Mr. G. R. Hale, Ottawa, Ontario.
Halifax Visitors and Convention Bureau, Halifax, N.S.
Mr. L. K. Hall, Clarkson, Ont.
Mr. W. H. Hall-Holland, Komoka, Ont.
A. C. Hall Motors Ltd., Strathroy, Ont.
Hallman Motors Ltd., Hanover, Ont.
Halton County Board of Education, Oakville, Ontario.
Hamilton Handicap Club, Ottawa, Ont.
Mr. R. M. P. Hamilton, Toronto, Ont.
Mr. Richard S. Hanko, Don Mills, Ont.
Mr. Douglas R. Hagerman, Calgary, Alberta.
Mr. Bruce Haines, Toronto, Ontario.
Mr. Joseph Hamilton, Westmount, P.Q.
Mr. F. G. Murray Hanna, D.M.D., Vancouver, B.C.
Mr. Fred Hanson, Vancouver, B.C.
Mrs. Elizabeth Harlander, Brooklin, Ontario.
Mrs. Frank Harrington, Halifax, N.S.
Mr. W. G. Harris, Outremont, P.Q.
E. A. Hart Ltd., Toronto, Ontario.

Mrs. Ivy L. Hart, Rexdale, Ontario.
Mr. D. S. Harvie, Calgary, Alta.
Mr. W. F. Harvie, Windsor, Ont.
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Sudbury and District Chamber of Commerce, Sudbury, Ont.
Sudbury Motors Ltd., Sudbury, Ont.
Mr. D'Arcy Sullivan, Halifax, N.S.
Mr. T. Sullivan, Arnprior, Ont.
Sumcot Development Corporation Ltd., Scarborough, Ont.
Supertest Petroleum Corporation Ltd., London Ont.
Mr. G. B. Sutherland. Islington, Ont.
Swiss-Canadian Business Association Incorporated, Toronto, Ont.

Mr. John F. Szablya, Pullman, Washington, U.S.A.

Mr. Dick Szumlinski, Pointe Claire, P.Q.

Mr. Harry Szumlinski, Pointe Claire, P.Q.

Mr. Roy E. Storey, Morpeth, Ont.

Mr. W. J. Storie, Coquitlam, B.C.

Sterling Furniture Company Ltd., Vancouver, B.C.

Mr. W. E. G. Talbot, Vancouver, B.C.

Mr. Larry Taman, Toronto, Ont.

Mr. Edward Taylor, Streetsville, Ont.

Mr. Joseph Taylor, Regina, Sask.

Mr. L. F. Taylor, London, Ont.

Mr. W. S. Taylor, Pointe Claire, P.Q.

Tegler Building Ltd., Edmonton, Alta.

Mr. L. Telfer, Rossland, B.C.

Mr. Robert B. Telford, West Vancouver, B.C.

Terrace and District Chamber of Commerce, Terrace, B.C.

Mr. Albert Thielmann, North Burnaby North Burnaby, B.C.

M. Jacques A. Thivierge, Sillery, P.Q.

Mr. W. Thom, Pointe Claire, P.Q.

Alex Thomson Insurance Agency Ltd., London, Ont.

Mr. D. A. Thompson, Cooksville, Ont.

Lloyd C. Thompson Motors Ltd., Renfrew, Ont.

Mr. J. D. Thomson, Burlington, Ont.

Mr. R. H. Thompson, Port Moody, B.C.

Vera Thompson, Toronto, Ont.

W. J. Thorn Ltd., London, Ont.

Mr. G. N. Thorsteinsson, Vancouver, B.C.

Mr. J. P. Thornton, Victoria, B.C.

Three-M Supply Company Ltd., Vancouver, B.C.

Mr. E. H. Thring, Guelph, Ont.

Thunder Bay Chamber of Commerce, Thunder Bay, B.C.

Mr. T. A. Tinmouth Etobicoke, Ont.

Topping Electronics Ltd., Scarborough, Ont.

(Metro) Toronto Tax Reform Council, Toronto, Ont.

Toronto Oyster Houses Ltd., Toronto, Ont.

Torpedo Ltd., Lac Megantic, P.Q.

Mrs. Freeman Tovell, Ottawa, Ont.

Mr. W. B. Townley, Toronto. Ont.

Trans Mountain Oil Pipe Line Ltd., Company, Vancouver, B.C.

M. Lucien Tremblay, Beaumont, P.Q.

M. Paul Tremblay, Noranda, P.Q.

Triad Oil Company Ltd., Calgary, Alta.

Tri-Canada Fittings and Equipment Ltd., Toronto, Ont.

Mr. N. S. Trouth, Calgary, Alta.

Jim Tubman Motors Ltd., Ottawa, Ont.

Mr. Donald W. Tully, West Vancouver, B.C.

Underwood, McKinley, Cameron, Wilson, Smith and Associates, West Vancouver, B.C.

Union Carbide Corporation, New York, N.Y., U.S.A.

Union Gas Company of Canada Ltd., Chatham, Ontario.

Union Jack Wheat Pool, Weyburn, Sask.

Uni-Select Incorporated, Victoriaville, P.Q.

United Community Services of Greater London, London, Ont.

United Grain Growers Ltd., Winnepeg, Manitoba.

University of Guelph, Guelph, Ont.

Université Laval, Québec, P.Q.

University of New Brunswick, Fredericton, N.B.

University of Western Ontario, Dr. D. B. Shaw, Dept of Medicine, London, Ont.

University Women's Club of North York, Thornhill, Ont.

Mr. A. M. Urquhart, Victoria, B.C.

Valhalla Inn, Islington, Ont.

Mr. G. S. Valleau, Wainwright, Alta.

Mr. A. J. Valley, West Vancouver, B.C.

Mr. K. Vanagas, Vancouver, B.C.

Vancouver Junior Chamber of Commerce, Vancouver, B.C.

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Mr. N. van der Vliet, Victoria, B.C.

Mr. J. Van Netten, Willowdale, Ont.

Van Waters and Rogers Ltd., Vancouver, B.C.

Mr. N. Gary Van Nest, Toronto, Ont.

Dean Vaughan and Associates, Don Mills, Ont.

Mr. V. H. D. Vaughan, Vancouver, B.C.

Mr. Jean Marie Verstesge, Gatineau, P.Q.

M. Gaston Vézina, Noranda, P.Q.

M. Pierre Vézina, Rouyn, P.Q.

M. Yvan Vézina, Rouyn, P.Q.

Victoria Day Care Services, Toronto, Ont.

Victoria mome Builders Association, Victoria, B.C.

Mrs. E. Vidler, Pointe Claire, P.Q.

Mr. Norman Vincent, Toronto, Ont.

Mrs. John Vingoe, Waterloo, Ont.

Volkswagen Yonge Ltd., Toronto, Ont.

Voyageur Travel Insurance Ltd., Brampton, Ont.

Waekens-Krochak Ltd., Chatham, Ont.

Wagner Signs Ltd., Toronto, Ont.

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Mr. Fred Waite, White Rock, B.C.

Mr. I. W. I. Waldman, Vancouver, B.C.

Dr. T. H. Walhovd, Creston, B.C.

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Mr. John B. Walker, London, Ont.

Mr. and Mrs. R. Walker, Vancouver, B.C.

Mr. F. B. Wall, Toronto, Ont.

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Waterloo Federal Liberal Association, Kitchener, Ont.

Mr. J. E. Watkins, Ottawa, Ont.

Mr. E. N. Walton, West Vancouver, B.C.

Walrus and the Carpenter, Toronto, Ont.

Mr. K. H. Ward, Weston, Ontario.

Warren's Men's Wear Ltd., Ottawa, Ont.

Walwyn, Stodgell and Company Ltd., Toronto, Ontario.

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Mr. Kenneth M. Watson, West Hill, Ont.

Mr. P. D. Watt, Thompson, Man.

Mrs. Harriet T. Weaver, Toronto, Toronto, Ont.

Mr. W. E. Weaver, Toronto, Ont.

Mr. J. G. Weir, Toronto, Ont.

Mr. F. W. Webb, Toronto, Ont.

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Welsh Fred Welsh Antenna Systems, Vancouver, B.C.

Mel Welsh Advertising Ltd., Toronto, Ontario.

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Wentworth Lumber Ltd., Hamilton, Ont.

Mr. and Mrs. L. Weran, no address.

Wescorp Industries Ltd., Vancouver, B.C.

Mr. and Mrs. Edward Weslock. London, Ont.

West End Motors (Huntsville) Ltd., Huntsville, Ont.

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Mr. Robert A. West, Burlington, Ont.

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Mr. Stanley Weston, Vancouver, B.C.

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City of Weyburn, Weyburn, Sask.

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Mr. A. L. White, Willowdale, Ont.

Mr. G. O. White, Victoria, B.C.

Mr. Arthur F. Whitehead, Belleville, Ont.

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Mrs. R. Winn, Port Credit, Ont.

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Mr. Douglas Wood, Scarborough, Ont.

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Woodland Park Esso, Kinnaird, B.C.

Mr. George M. Woodwark, Victoria, B.C.
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Miss Dorothy Wright, Toronto, Ont.
Mr. Carl Westcott, Deep River, Ont.
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Willis, Cunfiffe, Tait and Company Ltd., Victoria, B.C.
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Zonto Club of Halifax, Halifax, N.S.

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Victoria [illegible], Toronto, Ont.

Victoria [illegible] Association, Victoria, B.C.

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Volkswagen Toronto Ltd., Toronto, Ont.

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Mr. Fred Waite, White Rock, B.C.

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Mr. W. E. Weaver, Toronto, Ont.

Mr. J. G. Weir, Toronto, Ont.

Mr. [illegible] W. Weir, Toronto, Ont.

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Mr. Robert A. West, Burlington, Ont.

Mr. J. P. West, Burnaby, B.C.

Mr. Stanley Weston, Vancouver, B.C.

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City of Weyburn, Weyburn, Sask.

Mr. D. H. Wheeler, no address.

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Mr. A. L. White, Willowdale, Ont.

Mr. G. O. White, Victoria, B.C.

Mr. Arthur P. Whitehead, Belleville, Ont.

Mr. Alfred J. Wickens, Qualicum Beach, B.C.

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Mrs. Rita M. Willhelm, Toronto, Ont.

Mr. M. C. Willison, Calgary, Alta.

Mr. D. G. Wilson, Toronto, Ont.

Mr. Ken Wilson, Port Credit, Ont.

Mr. Ross A. Wilson, St. Catharines, Ont.

Miss Gwendoline Winder, London, Ont.

Windsor Estate Planning Council, Windsor, Ont.

Mrs. R. Winn, Port Credit, Ont.

Winspear, Higgins, Stevenson and Co., Mr. W. H. Anderson, Vancouver, B.C.

Mr. T. J. Wolf, London, Ont.

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