

THE LIBRARY OF PARLIAMENT

CANADA. PARLIAMENT. SENATE.  
STANDING COMMITTEE ON BANKING, TRADE  
AND COMMERCE, 1972.

Proceedings.

BIBLIOTHÈQUE DU PARLEMENT





J  
103  
H7  
1972  
B3  
A1







FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA  
PROCEEDINGS  
OF THE  
STANDING SENATE COMMITTEE ON  
**BANKING, TRADE AND COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

---

Issue No. 1

---

THURSDAY, MARCH 23, 1972

---

Complete Proceedings on Bill C-8,  
intituled:

“An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act”

---

REPORT OF THE COMMITTEE

---

(Witnesses—See Minutes of Proceedings)



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

THE STANDING SENATE COMMITTEE ON  
BANKING, TRADE AND COMMERCE

THE SENATE OF CANADA

The Honourable Salter A. Hayden, *Chairman*  
The Honourable Senators,

PROCEEDINGS  
THE  
STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

THE HONOURABLE SALTER A. HAYDEN, *Chairman*

- |                                 |             |
|---------------------------------|-------------|
| Aird                            | Grosart     |
| Beaubien                        | Haig        |
| Benidickson                     | Hayden      |
| Blois                           | Hays        |
| Burchill                        | Isnor       |
| Carter                          | Lang        |
| Choquette                       | Macnaughton |
| Connolly ( <i>Ottawa West</i> ) | *Martin     |
| Cook                            | Molgat      |
| Croll                           | Molson      |
| Desruisseaux                    | Smith       |
| Everett                         | Sullivan    |
| *Flynn                          | Walker      |
| Gélinas                         | Welch       |
|                                 | White—(27)  |

\**Ex officio* members

(Quorum 7)

THURSDAY, MARCH 23, 1977

Complete Proceedings on Bill C-8,  
intituled;

"An Act to authorize the making of certain fiscal payments to  
provinces, to authorize the entry into tax collection agree-  
ments with provinces, and to amend the Established Pro-  
grams (Interim Arrangements) Act"

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)



# Order of Reference

Extract from the Minutes of the Proceedings of the Senate,  
March 22, 1971:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Martin, P.C., seconded by the Honourable Senator Langlois, for the second reading of the Bill C-8, intituled: "An act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act".

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative.

The Bill was then read the second time.

With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Croll, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was—  
Resolved in the affirmative."

Robert Fortier,  
*Clerk of the Senate.*

# Minutes of Proceedings

Order of Reference

Thursday, March 23, 1972.

(1)

Pursuant to notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m. to examine:

Bill C-8 "An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act"

*Present:* The Honourable Senators Hayden (*Chairman*), Beaubien, Benidickson, Blois, Bourget, Carter, Cook, Croll, Desruisseaux, Flynn, Hays, Isnor, Martin, Smith and Welch—(15).

*In attendance:* Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

## WITNESSES:

### Department of Finance:

The Honourable John N. Turner, P.C., Minister;  
Mr. E. S. Rubinoff, Director, Federal-Provincial Relations.

Mr. Turner submitted to the Committee several charts and tables which will be appended to these Proceedings as Appendices "A", "B" and "C".

Following a lengthy discussion and upon motion duly put it was *Resolved* to report the said Bill without amendment.

At 11:00 a.m. the Committee then proceeded to the next order of business.

## ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*

## THE STANDING SENATE COMMITTEE ON

Extract from the Minutes of the Proceedings of the Senate  
March 22, 1972

"Pursuant to the Order of the Day, the Senate resumed its debate on the motion of the Honourable Senator Martin, P.C., recorded by the Honourable Senator Langlois for the second reading of the Bill (C-8) entitled: "An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act."

After debate, and the question being put on the motion, it was *Resolved* in the affirmative.

The Bill was then read the second time.

With leave of the Senate, the Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Croll, that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

The question being put on the motion, it was *Resolved* in the affirmative.

Robert Fortin,  
Clerk of the Senate



# Report of the Committee

Senator Bourque: I am not asking you to.

Hon. Mr. Turner: It is in the bill, but it is a matter that I believe I should mention. Mr. Rubinovitch has indicated that he would like to see the bill amended to provide for a more equitable distribution of the tax burden. I am not sure if you are referring to that or not.

Thursday, March 23, 1972.

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill C-8, intituled: "An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act", has in obedience to the order of reference of March 22, 1972, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

**Salter A. Hayden,  
Chairman.**

I have often heard it said in some quarters that equalization really makes it easier for those provinces who receive equalization to level some of those legislative tax burdens on their own citizens. That is not borne out by the facts. The seven provinces receiving equalization payments have, in general, a higher tax burden on their own people than the five provinces who do not receive equalization. This is true even when the tax burden is measured in terms of the ratio of tax revenue to gross provincial product. The seven provinces receiving equalization payments, despite the equalization payments, still impose an equal tax burden on their own citizens.

Senator Collis Assiniboine: I am not sure if you are referring to that or not. I am not sure if you are referring to that or not. I am not sure if you are referring to that or not.

Hon. Mr. Turner: We are giving them up to a national average. When you say they are poor, we have to give them so much and then we find that they have to impose an additional burden on their own people.

Hon. Mr. Turner: The way it is taken care of is supported by the fact that the provinces which are not receiving equalization are not receiving equalization. The way it is taken care of is supported by the fact that the provinces which are not receiving equalization are not receiving equalization.

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill C-8, intituled: "An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act", has in obedience to the order of reference of March 22, 1972, examined the said Bill and now reports the same without amendment.

Thursday, March 23, 1972.

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill C-8, intituled: "An Act to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act", has in obedience to the order of reference of March 22, 1972, examined the said Bill and now reports the same without amendment.

**Salter A. Hayden,  
Chairman.**

I have often heard it said in some quarters that equalization really makes it easier for those provinces who receive equalization to level some of those legislative tax burdens on their own citizens. That is not borne out by the facts. The seven provinces receiving equalization payments have, in general, a higher tax burden on their own people than the five provinces who do not receive equalization. This is true even when the tax burden is measured in terms of the ratio of tax revenue to gross provincial product. The seven provinces receiving equalization payments, despite the equalization payments, still impose an equal tax burden on their own citizens.

Senator Collis Assiniboine: I am not sure if you are referring to that or not. I am not sure if you are referring to that or not. I am not sure if you are referring to that or not.

Hon. Mr. Turner: We are giving them up to a national average. When you say they are poor, we have to give them so much and then we find that they have to impose an additional burden on their own people.

Hon. Mr. Turner: The way it is taken care of is supported by the fact that the provinces which are not receiving equalization are not receiving equalization. The way it is taken care of is supported by the fact that the provinces which are not receiving equalization are not receiving equalization.



# The Standing Senate Committee on Banking, Trade and Commerce

## Evidence

Ottawa, Thursday, March 23, 1972

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-8, to authorize the making of certain fiscal payments to provinces, to authorize the entry into tax collection agreements with provinces, and to amend the Established Programs (Interim Arrangements) Act, met this day at 9.30 a.m. to give consideration to the bill.

**Senator Salter A. Hayden (Chairman)** in the Chair.

**The Chairman:** Honourable senators, we have before us this morning Bill C-8. The Minister of Finance is here and has an opening statement to make. Then we can decide what further information, if any, we require.

**The Honourable John N. Turner, Minister of Finance:** Thank you, Mr. Chairman. Honourable senators, I am back here, as Senator Croll has reminded me, in a new capacity. I want to say how much I enjoyed my appearances from time to time before the Senate as Minister of Justice and Attorney General. I enjoyed the searching questions and I enjoyed the courteous treatment I have always received here. I want to say to this committee that I look forward to close dealings for ever allowing the people of Canada and the Prime Minister to tolerate my being in this present position.

**The Chairman:** You mean, playing a return engagement. We expect you to be back again.

**Hon. Mr. Turner:** Thank you very much, Mr. Chairman.

Senator Martin made an opening statement in your house about the bill. I should just like to touch on a few points. I think all honourable senators know that what the bill does is set up a general fiscal arrangement in a federal state, for Canada, for five years, between Canada and the provinces. That period, hopefully, begins on April 1, 1972, subject to what the Senate decides to do with the bill, and it will last for five years from that date.

It succeeds the fiscal arrangements of 1967 and the previous five-year arrangements during the post war period.

The bill is really divided into seven parts. Part I deals with equalization. Part II deals with stabilization. Part III is the umbrella for the tax collection agreements with the provinces. Part IV is the income tax revenue guarantee given by my predecessor to the provinces, that they would not suffer any loss in revenue as a result of the tax reform bill. Part V relates to a sharing of the tax on the pay-out of undistributed income of corporations under the new tax reform act. Part VI deals with post secondary education. Part VII deals with those established programs or contracting out arrange-

ments whereby certain tax points are given in exchange for the contracting out of some shared cost arrangements. At the moment, only the Province of Quebec is taking advantage of those arrangements.

Dealing briefly with equalization, this bill provides for an extension of the 1967 arrangement whereby provincial revenues of all kinds, as defined in the bill, are equalized to a national average per capita standard. The process of equalization, Mr. Chairman and gentlemen, is to make it possible for all provinces to provide adequate levels of public services, without having to impose unduly high taxes on their citizens. I believe, on the basis of the figures I have been given by the Department of Finance, that this has been reasonably achieved. Certainly, those seven provinces that receive money by way of equalization under the existing act do not show any evidence of using those sums to impose less of a tax burden on their own citizens.

I have often heard it said in some quarters that equalization really makes it easier for those provinces who receive equalization to avoid some of those legitimate tax burdens on their own citizens. That is not borne out by the facts. The seven provinces receiving equalization payments have, in general, a higher tax burden on their own people, still, than the three provinces who are not beneficiaries under equalization.

**Senator Isnor:** Would you repeat that, please?

**Hon. Mr. Turner:** The seven provinces receiving equalization payments, despite the equalization payments, still impose an equal or heavier tax burden on their citizens than the others.

**Senator Croll:** At this stage, may I ask if you do not mind—I do not think you will mind: If you give it to them because they are poor and they still have to impose a greater burden, are you giving them enough?

**Hon. Mr. Turner:** We are giving them up to a national average.

**Senator Croll:** When you say they are poor, we have to give them so much, and then we find that they have to impose an additional burden on their own people?

**Hon. Mr. Turner:** The rest is taken care of, I suppose, by shared cost arrangements and so on. We are only on equalization here and equalization really means payments unconditionally made, with no strings attached, based on the national per capita average.

**Senator Bourget:** You have a formula for that?



**Hon. Mr. Turner:** We have a formula for that. Please do not ask me to go into that formula.

**Senator Bourget:** I am not asking you to.

**Hon. Mr. Turner:** It is in the bill, but it is a matter that involves abstract equations and I would have to get Mr. Rubinoff to describe it to you. However, I do have some tables and charts, showing the revenues and expenditures by level of government on a national accounts basis, from 1926 to 1970, that will set out the picture very clearly there, I think, for this house.

**Senator Croll:** Will it be put on record?

**Hon. Mr. Turner:** I will distribute it and put it on the record. I also have the tables relating to equalization, the program of the federal government, to be extended by Part I of the bill now before you, so that you will see just what it means in dollars and cents.

**The Chairman:** The tables will be appended to the record.

*See Appendices A, B and C, pp. 1:17-1:42*

**Hon. Mr. Turner:** The current cost per year of equalization to the consolidated revenue fund in Ottawa is \$1 billion. It is anticipated, that at the end of the five-year period it will be about \$1.5 billion.

**The Chairman:** Have the provinces approved of the formula?

**Hon. Mr. Turner:** This is a federal statute, Mr. Chairman, and it is the responsibility of the Parliament of Canada to decide how the tax payments of the Canadian citizens are distributed. There were seven meetings of my predecessor with his counterparts—my counterparts now—the provincial treasurers and ministers of finance of the provinces. There were fourteen meetings at the official level, working out, by the process of consultation, the basis of the extension of the Fiscal Arrangements Act. The matter was discussed by first ministers, by the Prime Minister and the premiers, at the meeting of first ministers last November.

In answer to Senator Croll, has there been consultation, the answer is Yes; but the final responsibility for the statute rests with the federal government and the federal Parliament.

**Senator Croll:** You said that the amount you are likely to pay out is a billion dollars. The last year has been about \$900 million, approximately.

**Hon. Mr. Turner:** It is about a billion dollars this year also, I am advised.

**Senator Croll:** And will it be a billion dollars in the future?

**Hon. Mr. Turner:** It will be going up to a billion and a half dollars by the end of this five-year period.

**Senator Croll:** But the billion dollars did not start five years ago, did it? Can you break this down?

**Hon. Mr. Turner:** There is a table here, table 1 of Appendix A.

**Senator Croll:** I just want a couple of years.

**Hon. Mr. Turner:** The total figures are in the last column. There is \$943 million on the next fiscal year beginning April 1. There is \$870 million this year, \$854 million last year, \$853 million the year before that and so on.

**Senator Croll:** Well, you have stayed in the \$800 million limit for those three years. Is that right?

**Hon. Mr. Turner:** That is right.

**Senator Croll:** But during the year 1969-70 your Gross National Product has jumped almost ten points.

**Hon. Mr. Turner:** I am advised, senator, and I think this makes sense, that there were very large adjustment payments made that year. These figures are on an accrual basis and differ from what would be shown on a cash basis.

**Senator Croll:** Well, the jump is all right, but you did not jump far enough. What I am saying is that you are a kind of skin-flint in here. For instance, the Gross National Product in Britain last year went up one point. Now, in our country, if it goes up one point it is a catastrophe. It has to go up five or six each year as it has. We have done very well in the last couple of years. I do not know where it all came from. But, suddenly, it is not reflected in what you are giving away.

**Hon. Mr. Turner:** Well, what obviously happened, Senator Croll, is that, certainly, the Gross National Product went up, but also, fortunately, in the so-called "have-not" provinces the provincial revenues went up. After all, it is only bringing those provincial revenues up to the national standard that prompted payments under equalization. So the payments are not going to go up on any proportion of gross national product. The payments only go up as the differential between provincial per capita revenue and national average per capita revenue changes. Fortunately, we can say that the provinces receiving it did pretty well in sharing that increase to the Gross National Product as reflected in the fact that they really did not get that much more out of the equalization.

**Senator Croll:** What you say is generally true, Mr. Minister, but there are four or five provinces who really did not contribute a great deal to the Gross National Product and did not benefit. Who got the benefit? The three big provinces and perhaps a few small ones. Really, it did not pass around in that fashion, you know.

**Hon. Mr. Turner:** So long as we use the standards, Mr. Chairman, per capita national income, that is the way it is worked out. It is the national average. If you are suggesting something more, you may have something, but it is not before the committee at the moment.

I will now go on to the aspect of stabilization, Part II of the bill. Stabilization provides a guarantee to every province. Not just the so-called "have-not" provinces, but every province, including



Alberta, British Columbia and Ontario, the provinces that do not receive currently under equalization. It provides a guarantee to every province against a drop in the provincial revenues other than a drop caused by a province reducing its own rate of taxation. In other words, there is a floor placed under provincial revenues by this bill, and the level of guarantee is raised from 95 per cent of the previous year under the statute currently in force until the end of this month. That floor is raised from 95 per cent to 100 per cent. In other words, what the federal government is now doing for the provinces is guaranteeing them a floor based on the previous year's total provincial revenues—unless, as I say, that decrease is caused by a reduction in the rate of taxation imposed by the province.

**The Chairman:** You mean we are guaranteeing or ensuring in this way that province will not lower its taxes.

**Hon. Mr. Turner:** No, sir. What we are guaranteeing is that, given the same tax structure, given the same rate of tax, a province can be guaranteed "X" number of dollars at least in a year or subsequent year. This means, of course, that, for borrowing purposes, when a province goes to the market, that market will know that the provincial revenues are guaranteed at least to the level of the current year.

**Senator Benidickson:** Unless they themselves lower the taxes.

**Hon. Mr. Turner:** Yes.

**Senator Benidickson:** And the effective date for determining action is January 1, 1972.

**Hon. Mr. Turner:** It will be each particular year. It is a floor from year to year.

**Senator Benidickson:** Each calendar year?

**Hon. Mr. Turner:** Each fiscal year.

**Senator Croll:** How is that done?

**Hon. Mr. Turner:** Just by calculation here.

**Senator Croll:** And it is passed out?

**Senator Benidickson:** There is a formula in the bill.

**Hon. Mr. Turner:** Yes. I am sure there is a bilateral accounting system. I am advised that it is a Statistics Canada system.

**Senator Croll:** When you are talking about paying out to the province, originally at the time of Confederation there was an agreement to pay to certain provinces a certain amount of money.

**Hon. Mr. Turner:** Right.

**Senator Croll:** In perpetuity?

**Hon. Mr. Turner:** I think the British North America Act spells that out. No, those were not payments in perpetuity. There may have been one to Prince Edward Island in perpetuity. I am advised that some of those statutory grants originally set forth under the British North America Act are still paid out and amount to about \$30 million. British Columbia got one of those in the early days. That was part of the deal for getting British Columbia in.

**Senator Croll:** I know.

**Senator Benidickson:** I want to raise a most important point this morning before I leave for the Finance Committee which is meeting simultaneously with this committee. The point deals with tax collections. Clause 9 says that while we have indicated in the last budget that, federally, we are eliminating estate taxes and taxes on gifts, we have agreed—somebody has agreed, and it is in the bill—that we will collect for the provinces for three years such succession duty taxes as they decide to impose. It has been made evident that most of the provinces, when they present a budget this spring, will be filling that vacuum to some extent and will be making their legislation retroactive to January 1, 1972.

My point is that I hate to see us in the position any longer than necessary of having the taxpayer sending his account to Ottawa or to an Ottawa agency and then Ottawa getting any ill will or blame related to such imposed tax. Many people, when they know it is a federal agency they pay to, do not understand that it is for the purposes of the province.

I realize that in this bridge period the provinces probably need some help from the federal administration who are familiar with the collection of estate taxes and can easily represent them in this field in this difficult bridge period. In my opinion they could take over their own responsibilities and any blame connected therewith earlier than a three-year period. I wonder if your people are absolutely satisfied that they could not do this in, say, two years. I would like to see an amendment to the bill to say that it could be no longer than two years.

**Hon. Mr. Turner:** Part III of the bill relates to all tax collection agreements for all taxes.

**Senator Benidickson:** I am referring to section 9.

**Hon. Mr. Turner:** That is right, and it provides for continuation of the collection agreements for personal and corporation taxes and for new agreements respecting succession duties and gift taxes.

**Senator Benidickson:** I am referring to section 9, subsection (3).

**Hon. Mr. Turner:** On succession duties, which we are talking about here, my predecessor was asked by the provinces who wanted to impose succession duties—that is to say, all provinces except Quebec, Ontario, Alberta and British Columbia, which administer their own tax or are now out of this area.

**Senator Benidickson:** Yes, of course Alberta is unique in that their proposals are for a nil collection.

**Hon. Mr. Turner:** But the other six provinces asked the federal government to collect those provincial succession duties for them because they did not have the machinery or the administrative paraphernalia to do it. The federal government said, "Fine, work out some kind of common statute and we will collect it for you, but we are not going to do it forever"—that is providing it is a worthwhile administrative arrangement—"But we are only going to do it for three years." The Canadian tax payer has to know who is collecting the money.



**Senator Benidickson:** That is the point I am making, but I think they could do it in two years.

**Hon. Mr. Turner:** Well, the provinces originally wanted it for five years, but we chopped it down to three. But it is going to be clearly identified on the form that this is a federal collection for purposes of convenience to the province in collecting the tax, and I want to say that particularly to the senators from Nova Scotia and New Brunswick whose governments are trying to suggest that this was foisted on them by the federal government. That was not the case; this was provincial initiative and we responded to it.

**Senator Benidickson:** I raise this point for the very reason you have just mentioned. In my opinion, in the collection of income taxes in provinces other than the Province of Quebec, I do not think the forms do sufficiently prominently make it clear to the person filling out the form that you are simply an agent acting as a collector for the provincial government and that the taxes actually have been imposed and are being passed on to the provinces. I hope that in the new forms with respect to succession duties this will be a little more recognizable—that the funds are not going to the federal office that receives the cheque.

**Hon. Mr. Turner:** I think that is a valid point, and I will pass it on to my colleague, the Minister of National Revenue.

**Senator Benidickson:** The other point I want to raise is that it will terminate in 1974, and I think it should terminate earlier, say, in 1973. But what is the position with respect to the collection of gift taxes? I do not think you have a terminating date with respect to gift taxes. Are you going to do that forever on behalf of the provinces?

**Hon. Mr. Turner:** There is no termination date on that, senator, because that is tied in with the income tax.

**Senator Benidickson:** The same principle is there that you get the blame for the tax by a lot of unsophisticated people while the money goes entirely to the provinces.

**Senator Carter:** Will that new form show that you are collecting the money for the provinces, and will that apply only to succession duties or will it apply to income tax as well?

**Senator Benidickson:** It applies now.

**Hon. Mr. Turner:** Senator Benidickson is suggesting that the print is too fine, and he wants it up in capital letters that this is in fact a provincial tax.

**Senator Cook:** On that point of succession duties, Mr. Minister, if the poorer provinces did not impose succession duties and gift taxes, would that not be in breach of the requirement that they must raise taxes equivalent to the "have" provinces?

**Hon. Mr. Turner:** There is no requirement under any of this legislation that the provinces have to levy any particular type of tax or any rate of tax.

**Senator Cook:** No, but will it not be in breach of the principle that they must levy taxes on their citizens at least equivalent to the taxes levied in provinces like Ontario and British Columbia?

**Hon. Mr. Turner:** That is not implicit in the bill. Alberta, for example, does not have sales tax at the moment.

**Senator Cook:** I was thinking that when you consider the yield that Newfoundland would gain if it had to collect it on its own, it would be rather stupid for them to do so.

**Hon. Mr. Turner:** Well, as I say, there is nothing implicit in this bill to affect that situation.

**Senator Benidickson:** I should like to emphasize the point that the federal people should consider putting a time limit on the collection of gift taxes. The other thing is that when the government leader explained the bill in the house on March 21, and this is to be found in *Hansard* on page 172, he indicated there was some saving to the taxpayers and some efficiency in having a central collection agency for taxes. He stated that this would save the taxpayers \$100 annually, but I think he should have said it would save them \$100 million annually.

**Hon. Mr. Turner:** Yes, it should be \$100 million.

**Senator Benidickson:** I find that the same mistake has been carried through into *Hansard*.

**Hon. Mr. Turner:** We are not sure about this, but the estimate given by my officials is \$100 million. At any rate, it is a great deal of money, and it is not only the question of a saving in cost to the taxpayer by having one collection agency, there is also a saving involved in the convenience of having only one form to fill for personal income tax in nine of the ten provinces and for corporate tax in eight of the ten provinces. Now that causes a blurring of the fiscal responsibilities suggested by Senator Benidickson, and the taxpayer of the country should know when paying his taxes what is being collected for the federal government and what is being collected for the provincial government.

**Senator Croll:** Can you not arrange to flag it somehow on the income tax form?

**Hon. Mr. Turner:** I will suggest to my colleague, the Minister of National Revenue, that he put it in red.

**Senator Hays:** What is the estimated cost of collection in the next few years?

**Hon. Mr. Turner:** That is really a question for the Minister of National Revenue. Mr. Rubinoff advises me that the cost of collecting the tax amounts to about \$90 million a year.

**Senator Hays:** That is the cost of collecting the tax, but what is the estimated cost of this service rendered to the provinces; and is this the federal cost, it is not billed back to the provinces for collection?

**Hon. Mr. Turner:** No, no. It is not billed back to the provinces. The cost is estimated by my people here to be \$90 million a year, for the collection of the taxes. They estimate that by having a uniform system, subject to the exceptions I have given the committee, we are saving \$100 million a year in collection costs. There is only one charge. Senator Benidickson, I believe you will be glad to know that we are charging the provinces 3 per cent on the succession duty collection.



**Senator Croll:** That is the normal charge.

**Senator Blois:** What is the estimated amount that the provinces are going to get out of this tax? How much are they going to get?

**Hon. Mr. Turner:** There are figures here. They are going to get a billion dollars a year.

**The Chairman:** That \$100 million?

**Hon. Mr. Turner:** Oh, how much will the provinces get out of the tax collection agreement?

**Senator Blois:** How much will the seven provinces get? If it is here in the tables, you need not look it up.

**Hon. Mr. Turner:** It is in the tables here, relating to tax collection agreements, Appendix C. You will see in Table 1 that in 1972 we estimate that the total take for the provinces for personal income tax under these agreements will be \$2,067 million.

**Senator Croll:** That is \$2,067 million from income tax or whatever you call it. The \$90 million is the cost of that, with the corporation tax on top of that.

**Hon. Mr. Turner:** The corporation tax you will find on the next page, Table 2, and that adds up to \$236 million.

**Senator Croll:** The total cost is \$90 million. I think you will find that is right.

**Hon. Mr. Turner:** That is right. It costs \$90 million to collect—Well, we will have to add them all up.

**Senator Hays:** That is what the 3 per cent relates to?

**Senator Croll:** No, no.

**Hon. Mr. Turner:** That is right, the figures I have given you are correct, they are the provincial revenues, so you have to throw the federal income taxes on top of that. It costs \$90 million to collect the \$15 billion.

**Senator Croll:** For \$15 billion, that is not bad. I would be prepared to pay you that if you collected it for me.

**Hon. Mr. Turner:** Would you like the account?

**Senator Croll:** I will take your word.

**Senator Bourget:** You would get 3 per cent out of it.

**Senator Desruijsseaux:** The 3 per cent is on the total receipts?

**Hon. Mr. Turner:** The 3 per cent charge would be on the total receipts of the succession duties collected from the provinces.

**Senator Desruijsseaux:** We collect it from the provinces?

**Hon. Mr. Turner:** We anticipate that the collection of succession duties from those six provinces that will sign agreements under section 9(3) of this bill will be \$65 million, and 3 per cent of that is \$1,800,000.

**Senator Bourget:** About \$2 million.

**Hon. Mr. Turner:** Yes, about \$2 million. Mr. Chairman, if you want to correct that—with apologies—we were including Ontario and Quebec in there. The six provinces anticipate the collection of succession duties this year, 1971-72, we are now in that financial year, at \$15 million. The six provinces, \$15 million, and 3 per cent of that of course would be about \$500,000.

**Senator Desruijsseaux:** You have a good deal with the provinces.

**Hon. Mr. Turner:** Well, that is the figure.

**Senator Carter:** I have one other question on this guaranteed floor for the provinces. How long will it last? Three years?

**Hon. Mr. Turner:** No, for the term of the agreement, five years.

**Senator Carter:** It is a five-year agreement. You, or someone said just now that, the provinces blame the federal government in connection with this collection of succession taxes. If there is more money collected now from any source, the greater their floor and the greater the guarantee, is it not an inducement for them to collect as much money as they can, from whatever source they can?

**Hon. Mr. Turner:** Yes, that is true, senator, but they cannot create the floor in that way and then withdraw succession duties next year, because that would lower the floor. The floor is based on the source and the rate remaining the same.

**Senator Carter:** There is an incentive brought into collecting this tax. There is no incentive after that, once they have done it. There is no incentive to take it off.

**Hon. Mr. Turner:** There is no incentive at all. All the stabilization has to do with it is to ensure a minimum of fluctuation in provincial revenues. That is the only reason for stabilization. There is no incentive to raise taxes or to lower taxes. The only purpose of stabilization is to ensure the regular progression of provincial revenue, so that a province will not, because of economic reasons, suffer wide fluctuations in its total revenue. That is all it means. There is no incentive to impose a tax, to change a tax base or change a tax rate.

**Senator Carter:** If they have a guarantee, that is an incentive to get as big a guarantee as possible.

**Hon. Mr. Turner:** No, because nothing is paid under the guarantee, if this year's revenues from all sources of a province is the same as last year. The guarantee is there, but there would be no payment under the guarantee. There would be only a payment under the guarantee if next year is less than this year. So there is no incentive at all. As a matter of fact, payments under stabilization appear unlikely this year. There is no province in a position where its revenues this year are going to be less than last year, so we anticipate that no payments will be made under Part II of this bill.

**Senator Beaubien:** Mr. Minister, I think that what Senator Carter is trying to say is that if the provinces collect a lot of money this year through death duties and then take the death duties off next year, would that floor remain?

**Hon. Mr. Turner:** No.



**Senator Beaubien:** If they changed the tax rate, it would go down. Is that not your point, senator?

**Senator Carter:** Yes, that is what I wanted to say.

**Hon. Mr. Turner:** That is right. The stabilization is on the assumption that the structure and the rates stay the same.

**Senator Croll:** But the base and the rates are not the same for all provinces. It is different for the "have" provinces as against the "have-nots."

**Hon. Mr. Turner:** That is true.

**Senator Croll:** How will the "have-nots" catch up?

**Hon. Mr. Turner:** They do not catch up under stabilization, they catch up under equalization. Equalization is the redistribution of federal tax money to the provinces to bring those provincial revenues up to a per capita national average. Seven of the provinces have revenues below that per capita national average. Three—Alberta, British Columbia and Ontario—have revenues above. That is equalization. Stabilization is a different matter. Stabilization is available to all ten provinces, have or have-not; and it is a guarantee by the federal government that the level of provincial revenue will not decrease from the preceding year, the preceding twelve months, no matter what the province does, provided that that decrease is not caused by a change in rate or by a narrowing of the tax base.

**Senator Flynn:** There was no payment last year and no payment is expected this year?

**Hon. Mr. Turner:** No payment has ever been made under stabilization.

**Senator Flynn:** Then, does it mean anything at all?

**Hon. Mr. Turner:** Yes, it does. If you are representing a provincial government, Senator Flynn, and you are going to the market and trying to get an interest rate on your provincial bonds, this bill means a good deal because it is a federal guarantee on provincial revenues.

**Senator Flynn:** But the only way provincial revenues can decrease substantially is if the same thing happens at the federal level.

**Hon. Mr. Turner:** If there is an economic down-turn.

**Senator Flynn:** Yes. Mr. Chairman, may I come back to the question of equalization? The principle has been well established that these equalization payments were made to enable a province to maintain the same standard of provincial services. What services were in the mind of the legislature when this principle was first enacted?

**Senator Beaubien:** Education.

**Senator Flynn:** Don't answer for him.

**Hon. Mr. Turner:** Mr. Chairman, these are unconditional payments. They are based on public services on a per capita national average. Once the money is paid to the province there is no con-

dition attached as to how that money ought to be spent. So we are not determining the priorities.

**Senator Flynn:** You are not determining them, but do you not think that you had in mind social services, education or anything coming within the jurisdiction of the provinces?

**Hon. Mr. Turner:** No, sir. That is a completely unconditional payment. The province can do what it wants to, subject to its accountability to its own legislature.

**Senator Flynn:** In other words, the federal government does not consider that it has solved all the problems of the maintenance of the provincial services when it has paid certain equalization payments.

**Hon. Mr. Turner:** No, sir. We do not. These payments account for \$1 billion a year at the moment at the present rate of transfer from the federal government to the provincial governments. The shared cost programs, health, medicare, hospitalization, et cetera, account for another \$4 billion. Those are the specific programs. Those are directed for specific purposes under national norms and so on.

**Senator Flynn:** With respect to the payments made directly to the individual in the social and welfare fields, what would be the amounts—that is, the payments made by the federal government?

**Hon. Mr. Turner:** That would be hard to calculate.

**Senator Croll:** You can get that amount out of the Canada Assistance Act.

**Senator Flynn:** I mean just rough figures.

**Hon. Mr. Turner:** I will have that looked into and get back to it in a moment.

**Senator Hays:** Do the documents you have given us this morning contain the amounts the "have" provinces are paying into the equalization fund?

**Hon. Mr. Turner:** I would not want you to put it that way. The "have" provinces are not paying money to the "have-not" provinces.

**Senator Isnor:** Why can you not cut out that term "have-not"?

**Hon. Mr. Turner:** I will cut the term out. The equalization payments are made out of the federal Consolidated Revenue Fund, based on taxes from all of the citizens of Canada. These are not payments from three provinces to seven provinces.

**Senator Hays:** But they are not getting it back, so what are they losing by it?

**Hon. Mr. Turner:** I do not think you can calculate that, senator.

**Senator Hays:** Where did the billion dollars come from?

**Hon. Mr. Turner:** From the general revenues of the country.

**Senator Hays:** You collect it, as I understand, from the three provinces—

**The Chairman:** This statement will not interfere with your ability to maintain the guarantee?



**The Chairman:** From all of the provinces.

**Senator Hays:** Well, from all of them, but one receives less than the other.

**The Chairman:** There are fewer people.

**Senator Hays:** There is no way of calculating what British Columbia, say, loses by equalization?

**Senator Cook:** It does not lose anything. It is the citizens of British Columbia who pay.

**Senator Hays:** Well, the citizens of British Columbia—

**Hon. Mr. Turner:** You cannot put it that way, senator. You cannot use that type of vocabulary.

**Senator Hays:** Well, you know what it is on the receiving end. Mr. Manning mentioned that Quebec gets \$400 million in addition to the equalization payments. Who pays that \$400 million?

**Hon. Mr. Turner:** We can analyze that for you. There are figures indicating how much each province gets under equalization. Above equalization, of course, are the shares each province gets under the various shared-cost programs. That can be calculated. But it is not a transfer from one province to another. It is the federal Parliament deciding how the money is going to be spent.

Let me just tell you what the equalization transfers represent for each province for the seven which receive equalization payments. For Manitoba, Saskatchewan and Quebec, they represent from about 13 per cent to 16 per cent of the gross provincial revenue. For New Brunswick and Nova Scotia they represent from 33 per cent to 35 per cent of the gross provincial revenue. For Prince Edward Island they represent 55 per cent of the gross provincial revenue. For Newfoundland they represent 66 per cent of the gross provincial revenue of Newfoundland. In other words, we have to be careful here in per capita terms. Quebec is not receiving the major share of equalization per capita.

**Senator Flynn:** Would it not be 10 per cent, Mr. Minister? If I heard the Minister of Finance for Quebec correctly, the projected budget for the present year is over \$4 billion. If you give them \$400 million, that is 10 per cent.

**Hon. Mr. Turner:** I was not going on the basis of his budget. I was going on the basis of the current fiscal year.

**Senator Flynn:** Well, 3 per cent on that is really quite important.

**Hon. Mr. Turner:** That is right. Of course, the more a receiving province adds to its own provincial revenues by its own imposition of tax, the less important will equalization be for it.

**Senator Hays:** My point is this: In the headlines in newspapers in Alberta this morning there will be a statement which was made in the Upper House yesterday that Quebec will receive \$400 million through equalization, and some reporter will figure out exactly how much that is going to cost every Albertan. How do you answer that, Mr. Minister?

**Hon. Mr. Turner:** I answer that in the sense that it is not a transfer. You just could not possibly segregate those amounts. The Consolidated Revenue Fund is made up of taxes received from everywhere in the country. We have decided in the federal Parliament that in the interests of equality, in the interests of holding this country together, in the interests of ensuring that the accident of geography is not going to determine minimum standards of public services in Canada, the federal government will reallocate some of the money to the provinces to ensure that provincial revenues can remain at a national average.

**Senator Croll:** On a per capita basis.

**Hon. Mr. Turner:** On a per capita basis, yes.

**Senator Croll:** That is the important point.

**Hon. Mr. Turner:** I think I can demonstrate conclusively, given the time, that the seven receiving provinces do tax their own citizens heavily. In terms of the weight on the individual taxpayer in Canada, whether you live in Alberta or in Newfoundland, equalization does not result in an increase of taxes for any particular citizen of any particular province, because the taxes in Alberta are lower than the taxes in Newfoundland.

**Senator Cook:** And the federal taxes are the same.

**Hon. Mr. Turner:** The federal taxes are the same, yes. Without equalization, for instance, Newfoundland would have to boost its own tax rates by 75 per cent. I can break that down, what they would have to do.

**Senator Croll:** I think what Senator Hays said is so true, that it will be presented in that form. It is really taking it out of context when you present it in that form.

**Hon. Mr. Turner:** That is the way it will be done.

**Senator Croll:** That is the way it will be done. It is unfortunate. Perhaps it would not be a bad idea, after you leave here, to take a few minutes and give an interview on that particular point so that the wrong impression does not get out. Just state the truth, that is all. That is not hard is it, Mr. Minister?

**Hon. Mr. Turner:** I find that a very congenial task, senator, because I do not have a good enough memory to be a liar.

**Senator Beaubien:** If you had no provinces and had a federal state, would that not wipe out this problem by having everybody's taxes the same?

**Hon. Mr. Turner:** It would not wipe out the problem at all. Look what Ontario has to do to equalize opportunity between southern and northern Ontario. Look what Quebec has to do to equalize opportunity between Montreal and Gaspé. This is the problem that is with us no matter what type of structural position we chose for our country.

**Senator Croll:** Talking about the truth, if you do not mind—

**Hon. Mr. Turner:** I do not mind at all.



**Senator Croll:** When sitting in caucus one day with Prime Minister King, somebody was dealing with a very difficult problem that had to be answered, and Prime Minister King said, "Well, if you are really in trouble fall back on the truth".

**Senator Flynn:** That is typical of the prime minister of the day!

**Hon. Mr. Turner:** May I move on to the tax collection agreement—

**Senator Hays:** Just before you leave that point, Mr. Minister, I hope that there is some better explanation of this. I appreciate what you say and I realize that is correct, but to get the true story over, if, as Senator Bourget says, there was no tax, if there were no equalization payments, the poor would get poorer and the rich would get richer.

**The Chairman:** Or taxes might be lowered.

**Senator Bourget:** The people of Canada would be taxed the same way. The people in Alberta are not going to be taxed higher because of those equalization payments; it will be spread all over Canada.

**Hon. Mr. Turner:** If we try to reduce our country to a balance sheet as between regions and provinces, as to who was paying what and who was receiving what, first it would fracture the country. It is to way to run a country, no way to run a family and no way to run a partnership. It would be impossible to do that. How much revenue are the people of Ontario, British Columbia and Alberta receiving from the market created by these other provinces? Look at the oil under the arrangement we have in the national oil policy; the oil purchased in other parts of Canada that is produced by the people of Alberta, the royalties on which go to the coffers of the people of Alberta; the sewing machine that is bought down in Nova Scotia may be manufactured in Quebec or Ontario. You cannot get out of this type of accounting system. The reason I would resist breaking it down into that sort of accounting is because the figures would tend to be false unless you had the total picture, and that total picture would be almost impossible to put together unless you analyze not only the public sector but the private sector, and the way the revenues and expenses of this country are flowing.

**Senator Bourget:** That is why it is called an equalization payment.

**Hon. Mr. Turner:** There has to be mobility in this country. When I represented a Montreal constituency a lot of people came, as I did, from British Columbia, and from Alberta, were working in Montreal.

**Senator Bourget:** That is equalization.

**Hon. Mr. Turner:** That is equalization, and mobility, and ensuring that Canadians have a reasonably equal standard.

I think I dealt with the tax collection agreements, unless there are further questions. I can go back to it later.

Then there is the income tax revenue guarantee, Part IV of the bill. This is a new program that was not in the earlier statutes. It arises out of the federal income tax reform bill that is now law. The purpose of Part IV, starting at clause 11, is to provide a five-year guarantee to any province—any province, all ten provinces—which harmonizes its personal income tax with the new federal tax. It is a

guarantee that its equalized revenues from personal and corporation income taxes will not be less than the estimated revenue under the old system. In other words, it is a guarantee that the personal and corporate revenues for provincial purposes under the new law will not be less than under the old law. I think senators know where that problem came from.

The administration of this concept requires estimating break even rates for each province on personal income tax. The rates which the new taxes would yield is the same amount as under the old tax. These rates are set out in the bill. The method of estimating the yield on the old system, had it continued in effect, is very complicated indeed; it is not set out in the bill and will have to be set out in the regulations.

**Senator Flynn:** This is a very generous offer.

**Hon. Mr. Turner:** Well, it is a guarantee; it is as generous as any other guarantee.

**Senator Flynn:** What fear have you that the yield would be less in revenue from the new system than you had from the former? I think everybody has forecast that the government would collect more under the new system.

[Translation]

**Hon. Mr. Turner:** We do not worry, as far as we are concerned. For some provinces, revenues would be less under the new system. We believe that this would guarantee the income.

**Senator Flynn:** That is what I wanted you to tell us.

**Hon. Mr. Turner:** We do not worry, the others should worry, rather; whether it is justified or not, I could not say, but the guarantee is there anyway.

**Senator Flynn:** Agreed.

[English]

**The Chairman:** When Mr. Benson was here he was asked what additional revenues would be produced under the new tax bill as against the revenues that would be produced under the existing tax bill. His answer was, in effect: If the machinery in the new bill works right there will not be the opportunity for increases, because there are abatements provided for in the new bill, and as more income comes in there are certain abatements that reduce the level of taxation.

**Hon. Mr. Turner:** I guess Mr. Rubinoff was here. It is too early for me to disagree with Mr. Benson. You know that, Mr. Chairman. I think what Mr. Benson was referring to was the abatement over a period of four years.

**The Chairman:** That is right.

**Hon. Mr. Turner:** From the 49, 48, 47, 46 corporate tax, the reduction of personal income tax for taxpayers in the first bracket. I see no reason to disagree with that at the moment. The personal income tax is a very elastic tax, and it will be very hard to predict under this bill.

**The Chairman:** This abatement will not interfere with your ability to maintain the guarantees?



**Hon. Mr. Turner:** No.

**The Chairman:** If you have to go searching for more revenue in order to maintain your guarantees, you will have to provide other taxes or abandon the abatement principle.

**Hon. Mr. Turner:** The guarantee is there, and we feel at the moment, and I am so advised, that that guarantee will not involve any federal payments.

**Senator Croll:** What is our history of increased revenue? Take five years, in percentage.

**Hon. Mr. Turner:** What type of revenues?

**Senator Croll:** The total revenue, when we talk about guarantees and where we are going to get the money. What have we been getting totally in the last five years, the dollar and percentage increase? I always thought they were pretty good.

**Hon. Mr. Turner:** We will try to get that for you, senator.

**Senator Flynn:** Expenditure has doubled in the last five years.

**Hon. Mr. Turner:** Senator Croll is talking about revenues.

**Senator Flynn:** I know it is not exactly the same, but usually it is very close.

**Hon. Mr. Turner:** I can give the gross. You have it in your own tables here. I know there is a lot of paper, for which we apologize. When you are back in the quiet of your celibate cells here you can look at it. It is in the tables on revenues and expenditures, Appendix B, table 1. This shows the allocation of revenues by level of government on a national accounts basis, 1926 to 1970. We start in 1926, with federal revenues from all sources at \$370 million, and we are up in 1970 to \$15 billion. You have provincial-municipal revenues next to it, which in 1926 were \$437 million, and in 1970 they are up to \$13.7 billion.

The federal share of the total has gone from 46 per cent in 1926 to 52 per cent in 1970. The provincial-municipal share from 1926 to 1970 has gone from 54 per cent to 48 per cent. That is a bit misleading. When you get to the post-war years, starting at 1944, say, which is the first post-war reconstruction year, the federal share of the total was 78.1 per cent; the provincial-municipal share of the total was 21.9 per cent. Since 1944 that federal share of the Canadian tax dollar has gone down from 78 per cent to 52 per cent. The provincial-municipal share of our tax dollar has gone up from 21.9 per cent to 47.7 per cent. Those are the real figures. I do not know whether Mr. Nelson and the other members of the gallery have those figures, but we will be very glad to distribute them.

**Senator Flynn:** That is despite the fact that the budget of the federal government serves more and more to help the provinces, either indirectly or directly, in the field of social services.

**Hon. Mr. Turner:** That is so. Of the \$13.7 billion in 1970, two years ago, I would say that we are talking about \$4 billion to \$4½ billion being transferred from the federal taxpayer.

**Senator Flynn:** About 30 per cent of the federal budget.

**Senator Cook:** Is there any table to show how the debts have gone up?

**Hon. Mr. Turner:** We do not have the federal-provincial debts here. We could supply those tables if you are interested. Well, senator, I have to be careful here. The \$13 billion would have to have added to it another \$4½ billion, so you get \$17½ billion. If you take the share after equalization those figures are even more disturbing.

**Senator Flynn:** You have to take the \$4 billion off.

**Hon. Mr. Turner:** You take the four off the 17 and add the four to the 13. In table 2, the next table, you have that. In 1970 the share of final expenditures, after equalization, is 40.4 per cent for the federal government and 59.6 per cent provincial-municipal governments. That equalization is a \$4½ billion or \$5 billion transfer from federal to provincial.

**Senator Flynn:** The way this table is drafted provides quite an admission, however, that the federal government is more and more involved in provincial responsibilities.

**Hon. Mr. Turner:** Oh no, sir. That equalization is a completely unconditional payment. Those shared cost programs, although they have certain federal norms, are recognizing more and more—witness the recent offer of the federal government on family allowances—within a general umbrella agreement provincial priorities, as to how that money is to be spent.

**Senator Flynn:** The way the table is prepared you have provincial revenues and then expenses in the provincial—federal jurisdiction and expenses in the municipal and provincial fields. You see that you have to take about \$4 billion out of the money collected by the federal authorities to add to the provincial and municipal sectors. This is the way the table is prepared.

**Senator Cook:** I think in some cases it is a pity that these payments are unconditional. An awful lot has been wasted.

**Senator Flynn:** Are you speaking of any special provinces?

**Senator Cook:** No.

**Senator Croll:** These are interesting tables and we do not often get a chance to get at you. If you take a look at table no. 2 you will see that for the year 1941 it was at 31.3, the next one is at 15.5, and then there is the share of the final expenditure over to the right-hand side of the table.

**Hon. Mr. Turner:** You will remember that the Rowell-Sirois Report came out in 1938 or 1939 and Mitchell Hepburn scuttled that.

**Senator Croll:** Yes, 1935.

**Hon. Mr. Turner:** Then when the war started, there were the tax rental agreements based on the Rowell-Sirois decisions. That is why the figures ought to be compared from 1941 on.

**Senator Croll:** Then why is there underlining at 1961? Was there a change there again?



**Hon. Mr. Turner:** Yes, there was a change again from the tax rental arrangement that had operated during the war and during the post-war years to the fiscal arrangements as they now are.

**Senator Flynn:** Would that be due to the fact that if any province was collecting its own income tax, the taxpayer was entitled to deduct from his federal income tax the tax which he paid to the province?

**Hon. Mr. Turner:** I am advised that the reason for the change from the rental situation to a sharing situation is that the provinces about that time started to impose their own taxes.

**Senator Carter:** Do you have any figures on the Gross National Product? That figure of \$28.79 billion, is that roughly 30 per cent of the Gross National Product?

**Hon. Mr. Turner:** I do not know if we have those figures or not. I know I do not have the exact figures, but I am advised it would be about 35 per cent.

**Senator Carter:** And you do not have a trend to take more of the Gross National Product than we have been doing?

**Hon. Mr. Turner:** Slightly, in terms of total tax, but much less in terms of the federal share of the tax. In other words, the federal share of taxation based against the Gross National Product has been going down.

**Senator Carter:** After the payments?

**Hon. Mr. Turner:** Before or after. I think we can show you those figures.

**Senator Carter:** But is there not a limit in terms of what we have whereby you get into the situation of diminishing returns?

**Hon. Mr. Turner:** I suppose that limit is economic, political—

**Senator Bourget:** And better administration.

**Hon. Mr. Turner:** And Senator Bourget suggests better administration. I would point out that in this area of expenditure levels we are well below European standards.

**The Chairman:** Shall we move to the next item?

**Hon. Mr. Turner:** The next item is Part V of the bill—the shared tax on pay-out of corporate surplus—that begins on page 16 of the bill with clause 18. This refers to the new federal tax imposed under Part IX of the Income Tax Act on pay-out of undistributed corporate surplus on hand at the end of the corporation's 1971 taxation year. The provinces were concerned that they were not going to get a fair share of that, and this provides that they will get a fair share of the proceeds because it provides that 20 per cent of the proceeds of tax on undistributed surplus as of 1971 will be shared with the provinces.

**Senator Flynn:** The same percentage as before?

**Hon. Mr. Turner:** I am advised that is approximately the same as they would receive were they impose a corporate tax on that same amount of money.

**Senator Flynn:** That is the surplus on the books as at December 31, 1971?

**Hon. Mr. Turner:** Yes, as at that date.

**Senator Flynn:** And from now on, what will the situation be?

**Hon. Mr. Turner:** From now on it will be part of the new Income Tax Act. The amount of revenue here is likely to be small but it was an acceptance of the principle that special taxes imposed under the new federal Income Tax Act would be shared with the provinces.

**The Chairman:** And, translating that, it would amount to 20 per cent of 15 per cent?

**Hon. Mr. Turner:** It has been 15 per cent since 1949.

**The Chairman:** Yes, so if you are going to pay out that surplus you are going to give them 20 per cent of 15 per cent.

**Hon. Mr. Turner:** That is right.

Part VI of the bill deals with post-secondary education, and it begins on page 18 of the bill at clause 22. The purpose of this Part is to provide a two-year extension only of the 1967 arrangements whereby the federal government shares one-half of the operating costs of post-secondary education in Canada.

**Senator Hays:** Is that capital cost or operating costs?

**Hon. Mr. Turner:** Just operating costs.

**Senator Hays:** What is the ratio? Is it about 75 per cent for operating cost and 25 per cent for capital cost?

**Hon. Mr. Turner:** It varies from year to year. It is very hard to pinpoint. But we can get you that figure.

**Senator Flynn:** I have seen a figure given by the leader of the government.

**Hon. Mr. Turner:** Yes, and the Secretary of State is holding discussions now with all provinces to work out future arrangements between the federal and provincial governments on post-secondary education. You will notice that there is a 15 per cent maximum increase per year placed on it so that there is some effort to try to contain the escalation.

**Senator Croll:** What has been the rate of increase before?

**Hon. Mr. Turner:** About 20 per cent.

**Senator Croll:** Is that 20 per cent above normal?

**Hon. Mr. Turner:** During the sixties, when we had the big boom going into post-secondary education, it was about 20 per cent per annum.

**Senator Croll:** And now we are cutting down to 15 per cent?

**Hon. Mr. Turner:** Now we are cutting down to 15 and we think in view of the demographic tables and so on that is a reasonable figure.



**Senator Croll:** I merely want to indicate to you that the province of Ontario recently followed your lead and made a decision very much like the decision you are making and said, "This is the cloth; fit in there." Well, the roof nearly went off the top and they just had to back down realizing that it meant, in this time of unemployment, that hundreds of teachers would be out of jobs. So they cut back a little, but to nothing like that extent. You must remember that 5 per cent, when you are talking your kind of money, is a lot of money.

**Hon. Mr. Turner:** I am advised that the provinces think they can live within this level.

**Senator Hays:** Do we pay 50 per cent of the operational costs of hospitals?

**Hon. Mr. Turner:** Pretty well.

**Senator Hays:** It works out to 50 per cent?

**Hon. Mr. Turner:** Yes, over the nation as a whole.

**Senator Hays:** And not capital?

**Hon. Mr. Turner:** And not capital.

**Senator Croll:** We make contributions to the capital—on hospitals and so on.

**Hon. Mr. Turner:** Under health resources, when they arise; but we are talking about general capital.

**Senator Croll:** Very well.

**Senator Flynn:** Is Quebec included in the scheme?

**Hon. Mr. Turner:** Post-secondary education?

**Senator Flynn:** There is no opting out here?

**Hon. Mr. Turner:** No.

**Senator Flynn:** Or by way of compensation?

**Hon. Mr. Turner:** No. The next Part is just a continuation of the Established Programs (Interim Arrangements) Act, Part VII. This will be found on page 30.

**Senator Croll:** Mr. Chairman, I move the adoption of the bill.

**Hon. Mr. Turner:** The purpose is to extend this, to provide authority for a continuation of the special financial arrangements with Quebec at the moment, respecting hospital insurance and welfare assistance programs. Quebec has opted out. Under these arrangements, Quebec receives part of its compensation for these programs through a transfer of income tax points.

**The Chairman:** It does not mean any more money that way?

**Hon. Mr. Turner:** There is no financial advantage to the province whatsoever.

**Senator Croll:** I move the adoption of the report.

**The Chairman:** Are there any general questions? Are you ready to report the bill without amendment?

**Hon. Senators:** Agreed.

**The Chairman:** Mr. Minister, I thank you very much for your courtesy and for the full explanations you have given.

**Hon. Mr. Turner:** Thank you, Mr. Chairman. It was my pleasure to be here.

The committee then proceeded to the next order of business.



APPENDIX "A"

TABLES RELATING TO EQUALIZATION

PROGRAM OF FEDERAL GOVERNMENT  
(TO BE EXTENDED BY PART I OF BILL C-8)

Year	Alta	Sask	Man	Ont	Que	N.B.	P.E.I.	Nfld	Total
1972-73	112,754	23,669	104,293	104,798	446,104	38,037	94,182	-	943,827
1973 Arrangements	65	15	67	881	017	081	781	-	17,079
1974-75	110,085	20,842	94,297	93,978	446,293	50,481	54,834	-	678,921
1975-76	96,707	19,804	91,708	89,233	408,129	52,219	56,426	-	628,620
1976-77	92,897	19,092	89,899	82,281	439,286	50,129	52,248	-	608,634
1977-78	72,978	16,128	79,432	70,712	392,249	46,822	30,207	-	508,391
1978 Arrangements	21	21	21	69	69	67	24	-	249,251
1979-80	39,191	10,437	47,902	44,274	151,242	30,200	31,407	-	352,008
1980-81	34,928	9,490	43,786	39,827	132,112	27,220	29,208	-	317,690
1981-82	37,061	8,111	37,668	33,044	96,121	18,692	22,002	1,190	242,892
1982-83	23,729	7,201	31,290	26,999	62,211	12,920	21,868	7,137	196,202
1983 Arrangements	24,012	6,931	29,117	22,218	68,772	13,792	22,892	12,219	209,250
1984-85	20,961	5,269	26,294	24,114	72,682	13,420	22,296	14,278	202,982
1985-86	20,256	5,261	25,912	23,972	69,874	13,249	21,904	15,237	200,240
1986-87	22,142	5,964	27,906	24,640	78,199	14,792	16,382	2,882	218,222
1987-88	20,134	5,262	25,296	24,640	78,199	14,792	16,382	2,882	204,861
1988-89	11,822	3,089	14,911	13,214	41,114	11,238	13,407	6,704	169,170

NOTES:

(1) The payments in this table consist of payments described in successive fiscal arrangements statutes as "equalization" (including transitional guarantees for Quebec, Manitoba, Saskatchewan and Alberta from 1962-63 to 1964-65 and for Saskatchewan in 1967-68) plus the Atlantic Provinces Adjustment Grants. Payments for the years 1967-68 to 1972-73 include amounts in respect of tax points applied for post-secondary education.

(2) The amounts shown are equalization entitlements for the year shown at the left irrespective of when paid. All adjustment payments are therefore attributed to the year for which the revenues are equalized.

(3) The amounts shown for the years 1973-74 to 1982-83 are final. The amount for 1983-84 is final subject to a small revision in respect of estate tax equalization which will be finally determined in 1975-76. The amounts for 1967-68 to 1969-70 are final except for the interim amounts paid in 1970-71 plus an estimate of the adjustment to be made in March, 1973; no account is taken of the post-consumption adjustment. The amount for 1971-72 consists of the interim amounts being paid during that year. The amount for 1972-73 is the Federal Main Estimate for that year.

(4) While the payments are grouped by quinquennial arrangement, there were mid-period changes in (a) 1975-76 (when the Atlantic Provinces Adjustment Grants were started) and (b) in 1964-65 when the standard of equalization was raised from national average to top two provinces but actual resource revenues were dropped as a positive element of equalization.



## EQUALIZATION PAYMENTS BY PROVINCE, 1957-58 TO 1972-73

(In thousands of dollars)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total</u>
1957 Arrangements											
1957-58	11,823	3,089	17,188	8,631	46,342	—	14,220	20,314	11,981	5,522	139,110
1958-59	20,131	5,561	26,258	22,641	63,275	—	13,495	20,389	13,407	6,704	191,861
1959-60	22,142	5,964	27,906	24,640	78,106	—	14,795	23,530	16,385	5,885	219,353
1960-61	20,255	5,561	25,913	23,975	69,874	—	13,349	21,904	15,357	6,052	202,240
1961-62	20,961	5,369	26,294	24,111	72,682	—	13,420	23,296	14,278	5,571	205,982
1962 Arrangements											
1962-63	24,012	6,931	29,117	25,518	68,773	—	13,705	22,895	12,319	—	203,270
1963-64	23,779	7,201	31,290	26,999	65,311	—	12,920	21,868	7,137	—	196,505
1964-65	27,061	8,111	37,668	33,048	96,121	—	18,694	22,002	1,190	—	243,895
1965-66	34,926	9,490	43,786	39,857	133,115	—	27,250	29,206	—	—	317,630
1966-67	39,191	10,451	47,902	44,214	151,343	—	30,500	31,407	—	—	355,008
1967 Arrangements											
1967-68	65,350	14,015	72,536	62,744	273,097	—	37,287	24,522	—	—	549,551
1968-69	72,978	16,128	79,435	70,712	392,249	—	46,822	30,307	—	—	708,631
1969-70	95,897	19,095	89,859	85,538	439,585	—	50,722	72,548	—	—	853,244
1970-71	96,707	19,804	91,704	89,233	408,729	—	52,217	96,426	—	—	854,820
1971-72	110,076	20,842	94,597	93,978	446,549	—	50,045	54,834	—	—	870,921
1972 Arrangements											
1972-73	112,754	23,669	104,293	104,798	446,104	—	58,057	94,182	—	—	943,857

## NOTES:

- (1) The payments in this table consist of payments described in successive fiscal arrangements statutes as "equalization" (including transitional guarantees for Quebec, Manitoba, Saskatchewan and Alberta from 1962-63 to 1964-65 and for Saskatchewan in 1967-68) plus the Atlantic Provinces Adjustment Grants. Payments for the years 1967-68 to 1972-73 include amounts in respect of tax points abated for post-secondary education.
- (2) The amounts shown are equalization entitlements for the year shown at the left irrespective of when paid. All adjustment payments are therefore attributed to the year for which the revenues are equalized.
- (3) The amounts shown for the years 1957-58 to 1965-66 are final. The amount for 1966-67 is final subject to a small revision in respect of estate tax equalization which will be finally determined in 1972-73. The amounts for 1967-68 to 1969-70 are final except for the adjustment following determination of the June 1, 1971 population. The amounts for 1970-71 are estimated; they consist of the interim amounts paid in 1970-71 plus an estimate of the adjustment to be made in March, 1973; no account is taken of the post-census population adjustment. The amount for 1971-72 consists of the interim amounts being paid during that year. The amount for 1972-73 is the Federal Main Estimate for that year.
- (4) While the payments are grouped by quinquennial arrangement, there were mid-period changes in (a) 1958-59 (when the Atlantic Provinces Adjustment Grants were started) and (b) in 1964-65 when the standard of equalization was raised from national average to top two provinces but natural resource revenues were dropped as a positive element of equalization.



EQUALIZATION PAYMENTS PER CAPITA BY PROVINCE, 1957-58 TO 1972-73

(Dollars)

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
<b>1957 ARRANGEMENTS</b>										
1957-58	28	31	25	15	10	-	16	23	10	4
1958-59	47	56	37	40	13	-	15	23	11	4
1959-60	50	59	39	42	16	-	17	26	13	4
1960-61	45	54	36	41	14	-	15	24	12	4
1961-62	46	51	36	40	14	-	15	25	11	3
<b>1962 ARRANGEMENTS</b>										
1962-63	51	65	39	42	13	-	15	25	9	-
1963-64	50	67	42	44	12	-	14	23	5	-
1964-65	56	74	50	54	17	-	19	23	1	-
1965-66	72	87	58	65	23	-	28	31	-	-
1966-67	79	96	63	72	26	-	32	33	-	-
<b>1967 ARRANGEMENTS</b>										
1967-68	131	129	96	101	47	-	39	26	-	-
1968-69	144	147	105	113	66	-	48	32	-	-
1969-70	187	174	118	137	73	-	52	76	-	-
1970-71	187	180	120	143	68	-	53	102	-	-
1971-72	210	188	123	149	74	-	51	59	-	-
<b>1972 ARRANGEMENTS</b>										
1972-73	213	213	135	164	74	-	58	102	-	-

NOTES: See accompanying table on absolute amount of payments.



HYPOTHETICAL ILLUSTRATION OF ALTERNATIVE METHODS OF CALCULATING EQUALIZATION  
TO A NATIONAL AVERAGE STANDARD

(Calculated with reference to equalizing provincial revenues from gasoline tax)

Assumptions:

- (1) Two province federation: *Province A*, wealthy, with 3,000,000 people, and *Province B*, poor, with 2,000,000 people.
- (2) *Province A* has per capita consumption of 200 gallons of gasoline and *Province B*, has per capita consumption of 100 gallons of gasoline.
- (3) *Province A* has a tax per gallon of 16¢ and *Province B* has a tax per gallon of 22¢, for respective yields of \$96 and \$44 million, totalling \$140 million.

Calculation of Equalization using National Average Rate of Taxation Approach

	Province A	Province B	Total
1. Revenues to be equalized			\$140 million
2. Population	3 million	2 million	5 million
3. National average revenues per capita (line 1 ÷ line 2)			\$28
4. Tax base	600 million gal.	200 million gal.	800 million gal.
5. National average rate of taxation (line 1 ÷ line 4)			17½¢ per gal.
6. Provincial yield at national average revenues per capita (line 2 x line 3)	\$84 million	\$56 million	\$140 million
7. Provincial yield at national average rate of taxation applied to own base (line 4 x line 5)	<u>\$105 million</u>	<u>\$35 million</u>	\$140 million
8. Equalization entitlement (line 6 - line 7)	<u>-</u>	<u>\$21 million</u>	

Calculation of Equalization using Fiscal Capacity Deficiency Approach

	Province A	Province B	Total
1. Revenues to be equalized			\$140 million
2. Population	3 million	2 million	5 million
3. Tax base	600 million gal.	200 million gal.	800 million gal.
4. Share of population	60.0%	40.0%	100%
5. Share of tax base	75.0%	25.0%	100%
6. Fiscal capacity deficiency (line 4 - line 5)	<u>-</u>	<u>15.0%</u>	
7. Equalization entitlement (line 1 x line 6)	<u>-</u>	<u>\$21 million</u>	

Algebraic Demonstration that Two Approaches are Identical

Assumptions: let  $E_1$  = equalization entitlement of given province

let  $R$  = revenues to be equalized

let  $p_1$  = population of given province

let  $P$  = population of all provinces

let  $b_1$  = tax base of given province

let  $E$  = tax base of all provinces

Then, as shown in the calculation of equalization using the national average rate of taxation approach:

$$\begin{aligned}
 E_1 &= \left[ \frac{p_1}{P} \cdot R \right] - \left[ \frac{b_1}{B} \cdot R \right] \\
 &= \left[ \frac{p_1}{P} \cdot R \right] - \left[ \frac{b_1}{B} \cdot R \right] \\
 &= R \left[ \frac{p_1}{P} - \frac{b_1}{B} \right] \quad \text{which is the fiscal capacity deficiency approach to determining equalization}
 \end{aligned}$$



TABLE I

PROVINCIAL REVENUE EQUALIZATION PAYMENTS TO THE PROVINCES  
UNDER THE FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS ACT, 1972

(Main Estimate for 1972-73)

(in thousands of dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	7 Recipient Provinces Total
1. Personal income tax	40,816	9,197	35,057	41,139	118,435	-299,536	20,928	56,367	11,320	-40,878	+321,939
2. Corporation income tax	8,619	2,079	11,152	10,122	23,474	-63,589	3,493	16,675	-9,477	-2,548	+75,614
3. General and miscellaneous sales taxes	15,810	4,275	12,911	12,996	190,045	-83,558	2,841	15,775	-32,770	-55,792	+165,653
4. Motive fuel taxes	12,283	453	4,463	2,647	15,840	-26,928	3,807	154	-13,521	4	+39,647
5. Motor vehicle licensing revenues	4,267	157	1,551	920	5,503	-9,355	1,322	53	-4,697	1	+13,773
6. Alcoholic beverage revenues	6,431	170	1,909	5,433	33,841	-23,870	-1,294	2,228	-4,390	-22,319	+48,718
7. Health insurance premiums	6,994	1,516	4,540	5,095	16,444	-38,384	1,415	6,708	1,856	-7,851	+42,712
8. Succession duties and gift taxes	4,615	792	2,857	3,922	1,153	-25,825	3,643	4,221	5,836	-1,214	+21,203
9. Race track taxes	1,063	80	948	980	-681	-7,448	1,068	1,679	345	1,860	+5,137
10. Forestry revenues	-1,117	701	4,165	-190	10,004	32,847	4,654	2,636	4,681	-58,381	+20,853
11. Oil royalties	4,384	920	6,415	5,285	50,107	66,268	7,503	-20,535	-125,339	4,992	+54,079
12. Natural gas royalties	1,256	264	1,838	1,503	14,352	18,777	2,358	1,505	-43,495	1,642	+23,076
13. Sales of Crown leases and reservations on oil and natural gas lands	1,729	363	2,530	2,086	19,764	26,138	3,246	-32	-51,619	-4,205	+29,686
14. Other oil and gas revenues	1,896	379	2,774	2,287	21,672	28,133	3,362	-5,944	-51,454	-3,105	+26,426
15. Metallic and non-metallic mineral revenues	-4,665	339	1,769	564	492	815	-2,159	-816	5,022	-1,361	-4,476
16. Water power rentals	-306	272	1,693	647	-10,814	6,159	-239	1,357	3,677	-2,446	-7,390
17. Other provincial taxes	4,169	823	3,888	4,012	10,027	-25,041	807	5,107	-2,218	-1,574	+28,833
18. Other provincial revenues	4,959	979	4,624	4,773	11,928	-29,786	960	6,075	-2,639	-1,873	+34,298
19. Share of income tax on power utilities	-449	-90	-791	577	3,518	-1,846	342	969	-4,160	1,930	+4,076
20. Total equalization entitlements	+112,754	+23,669	+104,293	+104,798	+446,104	-456,029	+58,057	+94,182	-313,042	-193,118	+943,857

Note: The amounts in this table are the products of amounts shown in Tables II and III respectively for revenues and Fiscal capacity deficiency or excess.



TABLE II  
FIRST ESTIMATE OF PROVINCIAL REVENUES TO BE EQUALIZED BY REVENUE SOURCE, 1972-73

Revenue Source	Estimated Revenues of the Ten Provinces (\$'000)
1. Personal income tax	3,015,055
2. Corporation income tax	740,980
3. General and miscellaneous sales taxes	2,437,218
4. Motive fuel taxes	1,228,342
5. Motor vehicle licensing revenues	426,734
6. Alcoholic beverage revenues	646,148
7. Health insurance premiums	682,981
8. Succession duties and gift taxes	213,224
9. Race track taxes	44,964
10. Forestry revenues	138,604
11. Oil royalties	181,805
12. Natural gas royalties	52,086
13. Sales of Crown leases and reservations on oil and gas lands	71,709
14. Other oil and gas revenues	78,633
15. Metallic and non-metallic mineral revenues	67,057
16. Water power rentals	53,801
17. Other provincial taxes	376,179
18. Other provincial revenues (including institutional revenues)	447,467
19. Share of income tax on power utilities	23,647
20. Total provincial revenues	10,926,634

Revenue Source	Alberta	British Columbia	Manitoba	Ontario	Quebec	Saskatchewan	New Brunswick	Prince Edward Island	Nova Scotia	Yukon	N.W.T.	Northwest Territories
1. Personal income tax	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
2. Corporation income tax	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
3. General and miscellaneous sales taxes	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
4. Motive fuel taxes	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
5. Motor vehicle licensing revenues	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
6. Alcoholic beverage revenues	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
7. Health insurance premiums	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000
8. Succession duties and gift taxes	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
9. Race track taxes	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
10. Forestry revenues	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
11. Oil royalties	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
12. Natural gas royalties	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
13. Sales of Crown leases and reservations on oil and gas lands	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
14. Other oil and gas revenues	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
15. Metallic and non-metallic mineral revenues	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
16. Water power rentals	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
17. Other provincial taxes	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
18. Other provincial revenues (including institutional revenues)	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
19. Share of income tax on power utilities	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
20. Total provincial revenues	3,015,055	740,980	2,437,218	1,228,342	426,734	646,148	682,981	213,224	44,964	138,604	181,805	52,086

Note: The amount of each revenue source is based on the 1971-72 actuals for the province and the 1972-73 estimates for the territories. The total provincial revenues are based on the 1972-73 estimates for the provinces and territories.



TABLE III

CALCULATION OF "FISCAL CAPACITY DEFICIENCY" OR "EXCESS" FROM POPULATION AND REVENUE BASE SHARES, 1972-73

(All figures are percentages)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total for Equalization Receiving Provinces
<b>POPULATION SHARE</b>											
1. June 1, 1972 population (office estimate)	2.41145	0.50599	3.52829	2.90833	27.56074	36.44983	4.52660	4.19383	7.61271	10.30223	45.63523
<b>REVENUE BASE SHARES</b> (most recent available)(a)											
2. Personal income tax	1.05770	0.20094	2.36556	1.54389	23.63263	46.38452	3.83249	2.32432	7.23725	11.65804	34.95753
3. Corporation income tax	1.24827	0.22542	2.02334	1.54229	24.39275	45.03154	4.05524	1.94344	8.89166	10.64605	35.43075
4. General and miscellaneous sales taxes	1.76275	0.33059	2.99855	2.37508	23.41482	39.87824	4.41004	3.54658	8.95726	12.59138	38.83841
5. Motive Fuel Taxes	1.41146	0.46911	3.16492	2.69282	26.27121	38.64297	4.21671	4.18133	8.71350	10.30194	42.40756
6. Motor vehicle licence revenues	1.41146	0.46911	3.16492	2.69282	26.27121	38.64207	4.21671	4.18133	8.71350	10.30194	42.40756
7. Alcoholic beverage revenues	1.41617	0.47973	3.23288	2.06756	22.32344	40.14405	4.72681	3.84899	8.29218	13.75646	38.09558
8. Premiums	1.38740	0.28400	2.86357	2.16233	25.15303	42.06985	4.31943	3.21162	7.34103	11.45178	39.38138
9. Succession duties and gift taxes	0.24718	0.13438	2.18851	1.06894	27.01978	48.56154	2.81804	2.21416	4.87583	10.87164	35.69099
10. Race track taxes	0.04624	0.32706	1.41950	0.72822	29.07525	53.01438	2.15068	0.45872	6.84544	6.16483	34.20567
11. Forestry revenues	3.21711	-	0.52303	3.04567	20.34326	12.75145	1.16849	2.29225	4.23571	52.42303	30.58981
12. Oil royalties	-	-	-	0.00162	-	-	0.39959	15.48854	76.55396	7.55629	15.88975
13. Natural gas royalties	-	-	-	0.02306	0.00538	0.39974	-	1.30429	91.11882	7.14871	1.33273
14. Sale of Crown leases on oil and gas lands	-	-	-	-	-	-	-	4.23790	79.59631	16.16579	4.23790
15. Other oil and gas revenues	-	0.02463	-	-	-	0.67220	0.25063	11.75337	73.04823	14.25094	12.02863
16. Metallic and non-metallic mineral revenues	9.36871	-	0.89069	2.06657	26.82639	35.23427	7.74739	5.41044	0.12350	12.33204	52.31019
17. Water power rentals	2.98001	-	0.38066	1.70561	47.66167	25.00256	4.97095	1.67106	0.77859	14.84889	59.36996
18. Other provincial taxes	1.30318	0.28727	0.49486	1.84171	24.89514	43.10642	4.31206	2.83628	8.20236	10.72072	37.97050
19. Other provincial revenues	1.30318	0.28727	2.49486	1.84171	24.89514	43.10642	4.31206	2.83628	8.20236	10.72072	37.97050
20. Share of income tax on power utilities	4.31034	0.88718	6.87144	0.46870	12.68413	44.25427	3.08001	0.09625	25.20506	2.14262	28.39805



TABLE III (Cont'd)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total for Equalization Receiving Provinces
<b>FISCAL CAPACITY DEFICIENCY</b>											
<b>(+) OR EXCESS (-)</b>											
21. Personal income tax (line 1 – line 2)	1.35375	0.30505	1.16273	1.36444	3.92811	-9.93469	0.69411	1.86951	0.37546	-1.35581	+10.67770
22. Corporation income tax (line 1 – line 3)	1.16318	0.28057	1.50495	1.36604	3.16799	-8.58171	0.47136	2.25039	-1.27895	-0.34382	+10.20448
23. General and miscellaneous sales taxes (line 1 – line 4)	0.64870	0.17540	0.52974	0.53325	4.14592	-3.42841	0.11656	0.64725	-1.34455	-2.28915	+6.79682
24. Motive fuel taxes (line 1 – line 5)	0.99999	0.03688	0.36337	0.21551	1.28953	-2.19224	0.30989	0.01250	-1.10079	0.00029	+3.22767
25. Motor vehicle licence revenues (line 1 – line 6)	0.99999	0.03688	0.36337	0.21551	1.28953	-2.19224	0.30989	0.01250	-1.10079	0.00029	+3.22767
26. Alcoholic beverage revenues (line 1 – line 7)	0.99528	0.02626	0.29541	0.84077	5.23730	-3.69422	-0.20021	0.34484	-0.67947	-3.45423	+7.53965
27. Premiums (line 1 – line 8)	1.02405	0.22199	0.66472	0.74600	2.40771	-5.62002	0.20717	0.98221	0.27168	-1.14955	+6.25385
28. Succession duties and gift taxes (line 1 – line 9)	2.16427	0.37161	1.33978	1.83939	0.54096	-12.11171	1.70856	1.97967	2.73688	-0.56941	+9.94424
29. Race track taxes (line 1 – line 10)	2.36521	0.17893	2.10879	2.18011	-1.51451	-16.56455	2.37592	3.73511	0.76727	4.13740	+11.42956
30. Forestry revenues (line 1 – line 11)	-0.80566	0.50599	3.00526	-0.13734	7.21748	23.69838	3.35811	1.90158	3.37700	-42.12080	+15.04542
31. Oil royalties (line 1 – line 12)	2.41145	0.50599	3.52829	2.90671	27.56074	36.44983	4.12701	-11.29471	-68.94125	2.74594	+29.74548
32. Natural gas royalties (line 1 – line 13)	2.41145	0.50599	3.52829	2.88527	27.55536	36.05009	4.52660	2.88954	-83.50611	3.15352	+44.30250
33. Sale of Crown leases on oil and gas lands (line 1 – line 14)	2.41145	0.50599	3.52829	2.90833	27.56074	36.44983	4.52660	-0.04407	-71.98360	-5.86356	+41.39733
34. Other oil and gas revenues (line 1 – line 15)	2.41145	0.48136	3.52829	2.90833	27.56074	35.77763	4.27597	-7.55954	-65.43552	-3.94871	+33.60660
35. Metallic and non-metallic mineral revenues (line 1 – line 16)	-6.95726	0.50599	2.63760	0.84176	0.73435	1.21556	-3.22079	-1.21661	7.48921	-2.02981	-6.67496
36. Water power rentals (line 1 – line 17)	-0.56856	0.50599	3.14763	1.20272	-20.10093	11.44727	-0.44435	2.52277	6.83412	-4.54666	-13.73473
37. Other provincial taxes (line 1 – line 18)	1.10827	0.21872	1.03343	1.06662	2.66560	-6.65659	0.21454	1.35755	-0.58965	-0.41849	+7.66473
38. Other provincial revenues (line 1 – line 19)	1.10827	0.21872	1.03343	1.06662	2.66560	-6.65659	0.21454	1.35755	-0.58965	-0.41849	+7.66473
39. Share of income tax on power utilities	-1.89889	-0.38119	-3.34315	2.43963	14.87661	-7.80444	1.44659	4.09758	-17.59235	8.15961	+17.23718

(a) Revenue base shares derived from amounts shown for revenue base in ANNEX A, subject to adjustment of certain bases as shown in ANNEX B.



ANNEX A

REVENUE BASES USED FOR ESTIMATING REVENUE BASE SHARES FOR 1972-73

(Subject to adjustment of certain bases in Annex B)

(in thousands unless otherwise specified)

		Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
<b>REVENUE SOURCE AND BASE</b>												
1. Personal Income Tax												
1970 "Basic Tax" assessed, federal individual income tax, as of October 15, 1971	\$	72,089	13,777	162,082	105,164	1,623,189	3,122,151	262,361	161,941	487,907	780,735	6,791,396
2. Corporation Income Tax												
Allocated corporation taxable income for 1970 taxation year (excluding non-resident-owned investment and schedule D Crown corporations) assessed as of October 15, 1971	\$	78,433	14,164	127,133	96,907	1,532,677	2,829,480	254,804	122,133	558,692	668,926	6,283,329
3. General and Miscellaneous Sales Taxes (See Schedule A)	\$	580,507	109,936	994,563	785,339	7,781,626	12,860,912	1,462,822	1,208,682	2,893,091	4,022,058	32,699,536
4. Motive Fuel Taxes												
5. Motor Vehicle Licensing Revenues												
Motive fuel sales, 1970 (final)	'000 gals.	81,070	27,105	182,746	154,577	1,520,629	2,191,933	243,264	245,505	495,042	581,411	5,723,282
6. Alcoholic Beverage Revenues												
Sales of alcoholic beverages, 1969-70	gals.											
a. spirits		369,000	137,000	849,000	510,000	4,634,000	9,779,000	1,170,000	991,000	1,979,000	3,379,000	23,797,000
b. wine		66,000	56,000	482,000	409,000	4,313,000	5,857,000	794,000	682,000	1,613,000	2,784,000	17,056,000
c. line b x 0.215		14,203	12,051	103,726	88,017	928,158	1,260,426	170,869	146,766	347,118	599,117	3,670,451
d. beer		4,969,000	1,039,000	8,790,000	5,950,000	98,667,000	123,175,000	14,772,000	11,772,000	23,923,000	33,306,000	326,363,000
e. line d x 0.027		135,157	28,261	239,088	161,840	2,683,742	3,350,360	401,798	320,198	650,706	905,923	8,877,073
f. total (lines a + c + e)		518,360	177,312	1,191,814	759,857	8,245,900	14,389,786	1,742,667	1,457,964	2,976,824	4,884,040	36,344,524
7. Hospital Insurance Premiums												
Weighted number of taxable income tax returns, 1969 (See Schedule B)	No.	134,530	27,808	279,659	210,522	2,461,327	3,994,902	421,865	322,275	698,142	1,077,079	9,628,109
8. Succession Duties and Gift Taxes												
Provincial distribution by situs of property of gross estate tax assessments on domiciled estates												
1967-68	\$	438	490	4,689	1,665	43,981	81,181	4,949	4,593	8,618	16,340	166,944
1968-69	\$	555	237	2,930	1,787	46,689	105,341	6,602	4,681	9,571	26,724	205,117
1969-70	\$	562	180	4,914	2,376	47,435	87,826	3,987	3,906	8,038	21,695	180,919
1970-71	\$	334	120	4,192	2,341	68,385	96,768	5,998	3,741	11,035	18,324	211,238
Total	\$	1,889	1,027	16,725	8,169	206,490	371,116	21,536	16,921	37,262	83,083	764,218
9. Race track taxes												
Amounts wagered at pari-mutuel tracks on harness and running races, 1970	\$	267	1,900	8,241	4,203	169,210	302,357	12,475	2,708	39,103	34,982	575,446
10. Forestry Revenues												
Forest production from provincial Crown lands, 1970 (final)	m.cu.ft.	99,854	0	16,234	94,533	631,423	395,785	36,628	71,148	131,470	1,627,129	3,103,844
11. Oil Royalties												
Value of crude petroleum production from Crown lands, 1969	\$	0	0	0	13	0	0	3,195	123,842	612,104	60,418	799,572



TABLE III (Cont'd)

		Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
ANNEX A (Continued)												
12. Natural Gas Royalties												
Value of production of natural gas, natural gas by-products and naturally occurring gaseous products from Crown lands, 1969	\$	0	0	0	90	21	1,560	0	5,090	355,593	27,898	390,252
13. Sales of Crown Leases on Oil and Gas Lands												
Actual provincial revenues from sales of Crown leases on oil and gas lands, 1969-70	\$	0	0	0	0	0	0	0	4,638	87,111	17,692	109,441
14. Other Oil and Gas												
Actual provincial revenues from oil and gas, 1969-70, other than those described in 11, 12 and 13.	\$	0	17	0	0	0	464	173	8,113	50,423	9,837	69,027
15. Metallic and Non-Metallic Mineral Revenues												
Net value of mining production exclusive of fuels and structural materials, 1969	\$	160,670	0	15,275	35,441	460,063	604,255	132,865	92,787	2,118	211,490	1,714,964
16. Water Power Rentals												
Electrical energy generated from hydro sources, 1970 (preliminary)	'000 kwh	4,658,000	0	595,000	2,666,000	74,499,000	39,081,000	7,770,000	2,612,000	1,217,000	23,210,000	156,308,000
17. Other Provincial Taxes												
18. Other Provincial Revenues												
Combination of adjusted personal income and adjusted corporation profits weighted according to shares of revenue source initially paid by non-business and business taxpayers. (See Schedule C)	\$	2,106,337	464,319	4,032,473	2,976,772	40,238,255	69,673,341	6,969,628	4,584,302	13,257,561	17,328,011	161,630,999
19. Share of Income Tax on Power Utilities												
Actual payments in 1970-71	\$	1,030	212	1,642	112	3,031	10,575	736	23	6,023	512	23,896
20. Other Provincial Revenues												
(One 1 - line 18)		1,108,27	0,2187	1,0334	1,0681	2,8656	0,21454	1,35755	0,38965	0,41649	0,185473	7,66473
21. Share of income tax on power utilities												
(line 1 - line 19)		1,108,27	0,2187	1,0334	1,0681	2,8656	0,21454	1,35755	0,38965	0,41649	0,185473	7,66473
22. Share of income tax on power utilities												
(line 1 - line 19)		1,108,27	0,2187	1,0334	1,0681	2,8656	0,21454	1,35755	0,38965	0,41649	0,185473	7,66473

(a) Revenue base shares derived from amounts shown for revenue base in ANNEX A, subject to adjustment of certain bases as shown in ANNEX B.



SCHEDULE B  
 TAX BASE FOR HOSPITAL INSURANCE AND MEDICAL CARE INSURANCE PREMIUMS  
 FROM 1969 TO 1970  
 SCHEDULE A  
 FROM 1969 TO 1970

CONSUMPTION TAXES - GENERAL AND MISCELLANEOUS  
 NEW TAX BASE 1969-70

		Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total 10 Provinces Total
1. Total sales by retail establishments 1969	\$'000	481,366	123,449	884,117	702,564	6,961,648	10,588,424	1,187,527	1,051,765	2,255,113	3,108,468	27,344,441
2. Less food sales, 1969	\$'000	143,920	30,800	213,640	175,000	1,675,520	2,086,560	274,120	268,520	437,080	578,760	5,883,920
3. Less sale of children's clothing and footwear, 1969	\$'000	9,776	1,797	12,040	10,417	92,567	110,893	14,627	15,089	25,639	29,830	322,675
4. Less sales of gasoline and diesel fuel, 1969	\$'000	24,416	11,688	62,461	36,477	365,571	658,710	66,762	74,371	147,449	175,249	1,623,154
5. Sub-total: taxable retail sales, 1969 (line 1 minus 2, 3 & 4)	\$'000	303,254	79,164	595,976	480,670	4,827,990	7,732,261	832,018	693,785	1,644,945	2,324,629	19,514,692
6. Cost of construction material used, 1969 (Sub-total)	\$'000	140,818	15,088	224,847	136,686	1,205,647	2,119,482	328,571	267,626	682,296	748,155	5,869,216
7. Investment in place in new machinery & equipment, 1969	\$'000	111,000	18,000	154,000	163,000	1,294,000	2,482,000	261,000	296,000	566,000	732,000	6,077,000
8. Less investment in new machinery & equipment for agriculture & for fishing 1969	\$'000	7,000	6,500	17,000	14,600	97,500	190,100	68,500	126,100	156,400	45,600	729,300
9. Less sales of new commercial motor vehicles, 1969	\$'000	8,734	2,733	21,236	21,685	116,628	245,530	34,770	39,087	105,280	121,141	716,824
10. Residual (line 7 minus 8 & 9)	\$'000	95,266	8,767	115,764	126,715	1,079,872	2,046,370	157,730	130,813	304,320	565,259	4,630,876
11. Less 20% of residual	\$'000	19,053	1,753	23,153	25,343	215,974	409,274	31,546	26,163	60,864	113,052	926,175
12. Estimated taxable component of net investment in place in new machinery & equipment, 1969 (line 10 minus 11)	\$'000	76,213	7,014	92,611	101,372	863,898	1,637,096	126,184	104,650	243,456	452,207	3,704,701
13. Investment in repairs on machinery & equipment, 1969	\$'000	80,000	7,000	67,000	59,000	655,000	1,127,000	134,000	126,000	226,000	390,600	2,871,600
14. Less investment in repairs on machinery & equipment for agriculture and fishing, 1969	\$'000	5,600	3,000	8,000	4,300	30,500	51,900	21,000	48,000	41,200	16,000	229,500
15. Residual (line 13 minus 14)	\$'000	74,400	4,000	59,000	54,700	624,500	1,075,100	113,000	78,000	184,800	374,600	2,642,100
16. Less 60% of residual	\$'000	44,640	2,400	35,400	32,820	374,700	645,060	67,800	46,800	110,880	224,760	1,585,260
17. Estimated taxable component of net investment in repairs on machinery and equipment, 1969 (line 15 minus 16)	\$'000	29,760	1,600	23,600	21,880	249,800	430,040	45,200	31,200	73,920	149,840	1,056,840



SCHEDULE A (Continued)

		Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	10 Provinces Total
18. Sub-total: Net new investment & repair expenditure on machinery and equipment, 1969, (lines 12 & 17)	\$'000	105,973	8,614	116,211	123,252	1,113,698	2,067,136	171,384	135,850	317,376	602,047	4,761,541
19. Telephone calls, local and long-distance receipts, 1969	\$'000											
20. Hotel sales of accommodation, meals, beverages and other merchandise, 1969	\$'000											
21. Motel sales of accommodation, meals, beverages and other merchandise, 1969	\$'000											
22. Tourist court sales of accommodation, beverages and other merchandise, 1969	\$'000											
23. Receipts from admissions of regular motion picture theatres, 1969	\$'000											
24. Receipts from admissions of drive-in theatres, 1969	\$'000											
25. Total receipts from theatre admissions 1969 (lines 23 + 24)	\$'000											
26. Sub-total: Sales by Service establishments 1969 (lines 19, 20, 21, 22, 25)	\$'000	30,462	7,070	57,529	44,731	634,291	942,033	130,849	111,421	248,474	347,227	2,554,087
27. Total (lines 5, 6, 18 & 26)	\$'000	580,507	109,936	994,563	785,339	7,781,626	12,860,912	1,462,822	1,208,682	2,893,091	4,022,058	32,699,536

SCHEDULE A  
COMMISSION TAXES - GENERAL AND MISCELLANEOUS  
NEW TAX BYZES 1969-70



SCHEDULE B

TAX BASE FOR HOSPITAL INSURANCE AND MEDICAL CARE INSURANCE PREMIUMS

FROM 1969 TAXATION STATISTICS

NUMBER OF TAXABLE RETURNS

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total: 10 Provinces
Taxed as single with no dependant											
1. below \$1,700 total income	8,660	2,864	18,109	13,729	112,397	192,204	25,458	19,447	38,272	53,290	484,430
2. above \$1,700 total income	34,920	10,304	90,813	67,400	843,075	1,462,234	159,923	113,795	249,868	383,375	3,415,707
3. sub-total	43,580	13,168	108,922	81,129	955,472	1,654,438	185,381	133,242	288,140	436,665	3,900,137
Taxed as single with 1 or more dependants											
4. below \$2,400 total income	1,150	297	1,380	1,284	6,049	10,368	1,540	1,230	1,945	2,175	27,418
5. above \$2,400 total income	9,320	2,338	19,539	16,820	147,838	353,124	31,354	22,996	57,134	72,637	733,100
6. sub-total	10,470	2,635	20,919	18,104	153,887	363,492	32,894	24,226	59,079	74,812	760,518
Taxed as married with no dependant											
7. below \$3,100 total income	2,402	692	5,552	3,801	30,288	42,056	6,820	7,801	8,757	12,839	121,008
8. above \$3,100 total income	8,837	1,661	21,000	15,149	171,583	262,193	30,201	23,303	43,528	81,765	659,220
9. sub-total	11,239	2,353	26,552	18,950	201,871	304,249	37,021	31,104	52,285	94,604	780,228
Taxed as married with 1 dependant											
10. below \$3,400 total income	1,889	335	2,750	1,881	12,513	12,506	2,433	2,805	3,451	2,902	43,465
11. above \$3,400 total income	7,765	1,225	15,561	11,163	142,144	178,639	20,180	15,058	31,430	52,305	475,470
12. sub-total	9,654	1,560	18,311	13,044	154,657	191,145	22,613	17,863	34,881	55,207	518,935
Taxed as married with 2 dependants											
13. below \$3,800 total income	1,693	345	2,270	1,670	12,946	11,352	1,586	2,943	3,194	3,179	41,178
14. above \$3,800 total income	8,741	1,354	16,704	12,063	150,907	216,987	23,045	18,864	39,784	67,937	556,386
15. sub-total	10,434	1,699	18,974	13,733	163,853	228,339	24,631	21,807	42,978	71,116	597,564
Taxed as married with 3 dependants											
16. below \$4,100 total income	1,492	205	1,575	1,134	8,746	6,996	1,337	1,487	2,022	1,878	26,872
17. above \$4,100 total income	6,491	1,009	10,917	7,915	98,332	136,795	14,331	12,317	27,700	40,562	356,369
18. sub-total	7,983	1,214	12,492	9,049	107,078	143,791	15,668	13,804	29,722	42,440	383,241
Taxed as married with 4 dependants											
19. below \$4,600 total income	976	186	1,293	1,188	6,753	5,138	844	1,486	1,582	1,422	20,868
20. above \$4,600 total income	4,233	573	5,558	4,589	55,111	70,546	7,441	6,579	15,123	18,841	188,594
21. sub-total	5,209	759	6,851	5,777	61,864	75,684	8,285	8,065	16,705	20,263	209,462
Taxed as married with 5 or more dependants											
22. below \$5,500 total income	2,226	335	2,121	1,945	9,858	7,345	1,462	1,606	1,905	1,697	30,500
23. above \$5,500 total income	4,418	592	5,144	3,862	43,211	48,050	4,419	5,123	9,438	12,805	137,062
24. sub-total	6,644	927	7,265	5,807	53,069	55,395	5,881	6,729	11,343	14,502	167,562
Total taxed as married or as single with 1 or more dependants											
25. exempt (lines 4, 7, 10, 13, 16, 19 and 22)	11,828	2,395	16,941	12,903	87,153	95,761	16,022	19,358	22,856	26,092	311,309
26. taxable (lines 5, 8, 11, 14, 17, 20 and 23)	49,805	8,752	94,423	71,561	809,126	1,266,334	130,971	104,240	224,137	346,852	3,106,201
27. sub-total	61,633	11,147	111,364	84,464	896,279	1,362,095	146,993	123,598	246,993	372,944	3,417,510
Tax base											
28. Line 2	34,920	10,304	90,813	67,400	843,075	1,462,234	159,923	113,795	249,868	383,375	3,415,707
29. Line 26 times 2	99,610	17,504	188,846	143,122	1,618,252	2,532,668	261,942	208,480	448,274	693,704	6,212,402
30. Tax base (line 28 + line 29)	134,530	27,808	279,659	210,522	2,461,327	3,994,902	421,865	322,275	698,142	1,077,079	9,628,109



## SCHEDULE C

## REVENUE BASE FOR OTHER PROVINCIAL TAXES AND FOR OTHER PROVINCIAL REVENUES, 1970 (PRELIMINARY)

(Total income base consisting of combination of non-business income (adjusted personal income) and business income (adjusted corporation profits) weighted according to shares of revenue source initially paid by non-business and business taxpayers)

(thousands of dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
1. Personal Income	924,000	215,000	1,901,000	1,420,000	16,893,000	27,370,000	2,939,000	2,252,000	4,919,000	7,037,000	65,870,000
2. Changes in farm-held inventory	0	-1,000	+2,000	-2,000	0	+32,000	-26,000	-9,000	+20,000	+7,000	+23,000
3. Net income of non-farm unincorporated business	52,000	20,000	150,000	94,000	1,069,000	1,800,000	228,000	255,000	369,000	510,000	4,547,000
4. Imputed residential rent included in 3	6,000	2,000	15,000	11,000	103,000	229,000	33,000	49,000	59,000	58,000	565,000
5. Net income of non-farm unincorporated business, excluding imputed residential rent (3 - 4)	46,000	18,000	135,000	83,000	966,000	1,571,000	195,000	206,000	310,000	452,000	3,982,000
6. 30% of line 5	13,800	5,400	40,500	24,900	289,800	471,300	58,500	61,800	93,000	135,600	1,194,600
7. Total non-business income (line 1 minus lines 2 and 6)	910,200	210,600	1,858,500	1,397,100	16,603,200	26,866,700	2,906,500	2,199,200	4,806,000	6,894,400	64,652,400
8. Allocated corporation taxable income, 1970, as of October 15/71	78,433	14,164	127,133	96,907	1,532,677	2,829,480	254,804	122,113	558,692	668,926	6,283,329
9. 30% of net income of non-farm unincorporated business, excluding imputed residential rent (as in line 6)	13,800	5,400	40,500	24,900	289,800	471,300	58,500	61,800	93,000	135,600	1,194,600
10. Total unweighted business income (line 8 + line 9)	92,233	19,564	167,633	121,807	1,822,477	3,300,780	313,304	183,913	651,692	804,526	7,477,929
11. Total business income (weighted)											
$\frac{3}{2} \times \frac{64,652,400}{7,477,929} \times \text{line 10}$											
= 12.968644 x line 10	1,196,137	253,719	2,173,973	1,579,672	23,635,055	42,806,641	4,063,128	2,385,102	8,451,561	10,433,611	96,978,599
12. Total income (line 7 + line 11)	2,106,337	464,319	4,032,473	2,976,772	40,238,255	69,673,341	6,969,628	4,584,302	13,257,561	17,328,011	161,630,999

SCHEDULE B



## ANNEX B

Adjustments to Certain Tax Base Shares Taking Into Account Population  
Changes During the Period by which Tax Bases Lag Population  
(percentage)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total 7 Provinces</u>
1. Share of population, 1972 (Office estimate)	2.41145	0.50599	3.52829	2.90833	27.56074	36.44983	4.52660	4.19383	7.61271	10.30223	45.63523
2. Share of population, 1969 (as of June 1, Statistics Canada)	2.44599	0.52346	3.63091	2.97421	28.47625	35.46207	4.65880	4.56363	7.42838	9.83630	47.27325
3. Share of population, 1970 (as of June 1, Statistics Canada)	2.42873	0.51575	3.59152	2.92573	28.19299	35.80739	4.59959	4.41673	7.50188	10.01969	46.67104
Factors of adjustment											
4. Line 1 divided by line 2	0.98588	0.96663	0.97174	0.97785	0.96785	1.02785	0.97162	0.91897	1.02481	1.04737	0.96535
5. Line 1 divided by line 3	0.99289	0.98108	0.98239	0.99405	0.97757	1.01794	0.98413	0.94953	1.01477	1.02820	0.97781
Personal income tax											
6. Share of 1970 preliminary base	1.06148	0.20286	2.38658	1.54849	23.90067	45.97215	3.86314	2.38450	7.18419	11.49594	35.34772
7. Adjusted tax base (line 6 x line 5)	1.05393	0.19902	2.34455	1.53928	23.36458	46.79689	3.80183	2.26415	7.29030	11.82013	34.56734
8. 50% of adjustment: ½ (lines 6 + 7)	1.05771	0.20094	2.36557	1.54389	23.63263	46.38452	3.83249	2.32433	7.23725	11.65804	34.95756
General and miscellaneous sales taxes											
9. Share of 1969 final base	1.77528	0.33620	3.04152	2.40168	23.79736	39.33056	4.47352	3.69633	8.84750	12.30005	39.52189
10. Adjusted tax base (line 9 x line 4)	1.75021	0.32498	2.95557	2.34848	23.03227	40.42592	4.34656	3.39682	9.06701	12.88270	38.15439
11. 50% of adjustment: ½ (lines 9 + 10)	1.76275	0.33059	2.99855	2.37508	23.41482	39.87824	4.41004	3.54658	8.95726	12.59138	38.83841
Sales of motive fuels											
12. Share of 1970 final base	1.41649	0.47359	3.19303	2.70085	26.56918	38.29853	4.25043	4.28958	8.64962	10.15870	42.89315
13. Adjusted tax base (line 12 x line 5)	1.40642	0.46463	3.13680	2.68478	25.97323	38.98561	4.18298	4.07308	8.77737	10.44518	41.92192
14. 50% of adjustment: ½ (lines 12 + 13)	1.41146	0.46911	3.16492	2.69282	26.27121	38.64207	4.21671	4.18133	8.71350	10.30194	42.40756
Sales of alcoholic beverages											
15. Share of 1969 final base	1.42624	0.48787	3.27921	2.09071	22.68815	39.52972	4.79485	4.01151	8.19057	13.43817	38.77854
16. Adjusted tax base (line 15 x line 4)	1.40610	0.47159	3.18654	2.04440	21.95873	40.69538	4.65877	3.68646	8.39378	14.07474	37.41259
17. 50% of adjustment: ½ (lines 15 + 16)	1.41617	0.47973	3.23288	2.06756	22.32344	40.14405	4.72681	3.84899	8.29218	13.75646	38.09558
Premiums											
18. Share of 1969 final base	1.39726	0.28882	2.90461	2.18654	25.56397	41.49207	4.38160	3.34723	7.25108	11.18682	40.07003
19. Adjusted tax base (line 18 x line 4)	1.37753	0.27918	2.82253	2.13811	24.74209	42.64762	4.25725	3.07600	7.43098	11.71674	38.69269
20. 50% of adjustment: ½ (lines 18 + 19)	1.38740	0.28400	2.86357	2.16233	25.15303	42.06985	4.31943	3.21162	7.34103	11.45178	39.38138
Race track taxes											
21. Share of 1970 final base	0.04640	0.33018	1.43211	0.73039	29.40502	52.54307	2.16788	0.47059	6.79525	6.07911	34.58257
22. Adjusted tax base (line 21 x line 5)	0.04607	0.32393	1.40689	0.72604	28.74547	53.48569	2.13348	0.44684	6.89562	6.25054	33.32372
23. 50% of adjustment: ½ (lines 21 + 22)	0.04624	0.32706	1.41950	0.72822	29.07525	53.01438	2.15068	0.45872	6.84544	6.16483	34.20567







APPENDIX "B"

TABLES AND CHARTS  
SHOWING REVENUES AND EXPENDITURES  
BY LEVEL OF GOVERNMENT  
ON A NATIONAL ACCOUNTS BASIS  
1926-1970

TABLE (B) - FINAL EXPENDITURES (AFTER INTERGOVERNMENTAL TRANSFERS)

Year	Initial Expenditures (Federal transfers)		Final Expenditures (after transfers)		Total Expenditures (or 3 + 4)	Sources from own (col. 1 + 2)	Sources from other (col. 3 + 4)	Total Sources (col. 5 + 6)	Shares of Initial Expenditures (col. 7 + 8)	Shares of Final Expenditures (col. 9 + 10)
	Federal	Municipal	Federal	Municipal						
1926	301	448	301	448	749	301	448	749	40.3	59.7
1927	301	448	301	448	749	301	448	749	40.3	59.7
1928	301	448	301	448	749	301	448	749	40.3	59.7
1929	301	448	301	448	749	301	448	749	40.3	59.7
1930	301	448	301	448	749	301	448	749	40.3	59.7
1931	301	448	301	448	749	301	448	749	40.3	59.7
1932	301	448	301	448	749	301	448	749	40.3	59.7
1933	301	448	301	448	749	301	448	749	40.3	59.7
1934	301	448	301	448	749	301	448	749	40.3	59.7
1935	301	448	301	448	749	301	448	749	40.3	59.7
1936	301	448	301	448	749	301	448	749	40.3	59.7
1937	301	448	301	448	749	301	448	749	40.3	59.7
1938	301	448	301	448	749	301	448	749	40.3	59.7
1939	301	448	301	448	749	301	448	749	40.3	59.7
1940	301	448	301	448	749	301	448	749	40.3	59.7
1941	301	448	301	448	749	301	448	749	40.3	59.7
1942	301	448	301	448	749	301	448	749	40.3	59.7
1943	301	448	301	448	749	301	448	749	40.3	59.7
1944	301	448	301	448	749	301	448	749	40.3	59.7
1945	301	448	301	448	749	301	448	749	40.3	59.7
1946	301	448	301	448	749	301	448	749	40.3	59.7
1947	301	448	301	448	749	301	448	749	40.3	59.7
1948	301	448	301	448	749	301	448	749	40.3	59.7
1949	301	448	301	448	749	301	448	749	40.3	59.7
1950	301	448	301	448	749	301	448	749	40.3	59.7
1951	301	448	301	448	749	301	448	749	40.3	59.7
1952	301	448	301	448	749	301	448	749	40.3	59.7
1953	301	448	301	448	749	301	448	749	40.3	59.7
1954	301	448	301	448	749	301	448	749	40.3	59.7
1955	301	448	301	448	749	301	448	749	40.3	59.7
1956	301	448	301	448	749	301	448	749	40.3	59.7
1957	301	448	301	448	749	301	448	749	40.3	59.7
1958	301	448	301	448	749	301	448	749	40.3	59.7
1959	301	448	301	448	749	301	448	749	40.3	59.7
1960	301	448	301	448	749	301	448	749	40.3	59.7
1961	301	448	301	448	749	301	448	749	40.3	59.7
1962	301	448	301	448	749	301	448	749	40.3	59.7
1963	301	448	301	448	749	301	448	749	40.3	59.7
1964	301	448	301	448	749	301	448	749	40.3	59.7
1965	301	448	301	448	749	301	448	749	40.3	59.7
1966	301	448	301	448	749	301	448	749	40.3	59.7
1967	301	448	301	448	749	301	448	749	40.3	59.7
1968	301	448	301	448	749	301	448	749	40.3	59.7
1969	301	448	301	448	749	301	448	749	40.3	59.7
1970	301	448	301	448	749	301	448	749	40.3	59.7



TABLE 1  
ALLOCATION OF REVENUES BY LEVEL OF GOVERNMENT ON A NATIONAL ACCOUNTS  
BASIS, 1926-1970

Period	Year	Revenues			Federal Share of Total (%)	Provincial-Municipal Share of Total (%)
		Federal Revenues from own Sources (\$000'000)	Provincial-Municipal Revenues from own Sources (\$000'000)	Total Revenues from own Sources (\$000'000)		
	1926	370	437	807	45.8	54.2
	1927	385	460	845	45.6	54.4
	1928	429	489	918	46.7	53.3
	1929	396	537	933	42.4	57.6
	1930	271	538	809	33.5	66.5
	1931	227	508	735	30.9	69.1
	1932	211	487	698	30.2	69.8
	1933	245	467	712	34.4	65.6
Pre-Tax Rental Era	1934	294	489	783	37.5	62.5
	1935	310	540	850	36.5	63.5
	1936	399	580	979	40.8	59.2
	1937	460	598	1,058	43.5	56.5
	1938	411	610	1,021	40.3	59.7
	1939	455	619	1,074	42.4	57.6
	1940	856	674	1,530	55.9	44.1
	1941	1,493	705	2,198	67.9	32.1
	1942	2,010	662	2,672	75.2	24.8
	1943	2,435	693	3,128	77.8	22.2
	1944	2,576	721	3,297	78.1	21.9
	1945	2,431	791	3,222	75.5	24.5
	1946	2,595	895	3,490	74.4	25.6
	1947	2,733	1,082	3,815	71.6	28.4
	1948	2,667	1,262	3,929	67.9	32.1
	1949	2,645	1,335	3,980	66.5	33.5
	1950	2,962	1,471	4,433	66.8	33.2
Tax Rental Era	1951	4,099	1,706	5,805	70.6	29.4
	1952	4,616	1,781	6,397	72.2	27.8
	1953	4,734	1,881	6,615	71.6	28.4
	1954	4,531	1,995	6,526	69.4	30.6
	1955	4,926	2,212	7,138	69.0	31.0
	1956	5,610	2,521	8,131	69.0	31.0
	1957	5,579	2,923	8,502	65.6	34.4
	1958	5,311	3,153	8,464	62.7	37.3
	1959	6,035	3,577	9,612	62.8	37.2
	1960	6,406	3,839	10,245	62.5	37.5
	1961	6,662	4,168	10,830	61.5	38.5
	1962	6,855	5,057	11,912	57.5	42.5
	1963	7,191	5,482	12,673	56.7	43.3
	1964	8,209	6,102	14,311	57.4	42.6
	1965	8,951	7,032	15,983	56.0	44.0
Post Rental Era	1966	9,888	8,123	18,011	54.9	45.1
	1967	10,752	9,262	20,014	53.7	46.3
	1968	11,966	10,723	22,689	52.7	47.3
	1969	14,091	12,276	26,367	53.4	46.6
	1970	15,054	13,745	28,799	52.3	47.7



TABLE 2

ALLOCATION OF EXPENDITURES BY LEVEL OF GOVERNMENT ON A NATIONAL ACCOUNTS BASIS, 1926-1970:  
 (A) "INITIAL EXPENDITURES" (PRIOR TO INTERGOVERNMENTAL TRANSFERS) AND  
 (B) "FINAL EXPENDITURES" (AFTER INTERGOVERNMENTAL TRANSFERS)

Period	Year	Initial Expenditures (before transfers)		Final Expenditures (after transfers)		Total Expenditures	Shares of Initial Expenditures		Shares of Final Expenditures	
		Federal (1)	Provincial- Municipal (2)	Federal (3)	Provincial- Municipal (4)	(cols. 1 + 2 or 3 + 4) (5)	Federal (col. 1 ÷ 5) (6)	Provincial- Municipal (col. 2 ÷ 5) (7)	Federal (col. 3 ÷ 5) (8)	Provincial- Municipal (col. 4 ÷ 5) (9)
		(\$000'000)	(\$000'000)	(\$000'000)	(\$000'000)	(\$000'000)	(%)	(%)	(%)	(%)
Pre-Tax Rental Era	1926	302	448	287	463	750	40.3	59.7	38.3	61.7
	1927	317	481	301	497	798	39.7	60.3	37.7	62.3
	1928	324	510	307	527	834	38.8	61.2	36.8	63.2
	1929	340	582	323	599	922	36.9	63.1	35.0	65.0
	1930	367	663	342	688	1,030	35.6	64.4	33.2	66.8
	1931	387	659	331	715	1,046	37.0	63.0	31.6	68.4
	1932	365	612	303	674	977	37.4	62.6	31.0	69.0
	1933	359	529	303	585	888	40.4	59.6	34.1	65.9
	1934	387	584	316	655	971	39.9	60.1	32.5	67.5
	1935	431	590	357	664	1,021	42.2	57.8	35.0	65.0
	1936	436	576	345	667	1,012	43.1	56.9	34.1	65.9
	1937	451	639	346	744	1,090	41.4	58.6	31.7	68.3
	1938	498	671	412	757	1,169	42.6	57.4	35.2	64.8
	1939	457	660	378	739	1,117	40.9	59.1	33.8	66.2
	1940	987	601	917	671	1,588	62.2	37.8	57.7	42.3
	1941	1,523	616	1,469	670	2,139	71.2	28.8	68.7	31.3
	1942	3,723	505	3,573	655	4,228	88.1	11.9	84.5	15.5
	1943	4,340	531	4,192	679	4,871	89.1	10.9	86.1	13.9
	1944	5,274	580	5,119	735	5,854	90.1	9.9	87.4	12.6
	1945	4,292	650	4,135	807	4,942	86.8	13.2	83.7	16.3
	1946	2,978	787	2,804	961	3,765	79.1	20.9	74.5	25.5
1947	2,117	1,006	1,925	1,198	3,123	67.8	32.2	61.6	38.4	
1948	1,934	1,305	1,784	1,455	3,239	59.7	40.3	55.1	44.9	
1949	2,134	1,476	1,947	1,663	3,610	59.1	40.9	53.9	46.1	
Tax Rental Era	1950	2,336	1,567	2,085	1,818	3,903	59.9	40.1	53.4	46.6
	1951	3,148	1,851	2,889	2,110	4,999	63.0	37.0	57.8	42.2
	1952	4,353	1,919	3,985	2,287	6,272	69.4	30.6	63.5	36.5
	1953	4,610	1,949	4,198	2,361	6,559	70.3	29.7	64.0	36.0
	1954	4,585	2,221	4,155	2,651	6,806	67.4	32.6	61.0	39.0
	1955	4,723	2,454	4,273	2,904	7,177	65.8	34.2	59.5	40.5
	1956	5,018	2,847	4,533	3,332	7,865	63.8	36.2	57.6	42.4
	1957	5,350	3,192	4,829	3,713	8,542	62.6	37.4	56.5	43.5
	1958	6,049	3,464	5,386	4,127	9,513	63.6	36.4	56.6	43.4
	1959	6,312	3,839	5,432	4,719	10,151	62.2	37.8	53.5	46.5
	1960	6,684	4,280	5,690	5,274	10,964	61.0	39.0	51.9	48.1
	1961	7,064	4,611	5,936	5,739	11,675	60.5	39.5	50.8	49.2
Post-Rental Era	1962	7,365	5,291	6,231	6,425	12,656	58.2	41.8	49.2	50.8
	1963	7,488	5,809	6,319	6,978	13,297	56.3	43.7	47.5	52.5
	1964	7,927	6,276	6,675	7,528	14,203	55.8	44.2	47.0	53.0
	1965	8,410	7,188	6,976	8,622	15,598	53.9	46.1	44.7	55.3
	1966	9,593	8,542	7,931	10,204	18,135	52.9	47.1	43.7	56.3
	1967	10,837	9,663	8,845	11,655	20,500	52.9	47.1	43.1	56.9
	1968	11,999	10,718	9,547	13,170	22,717	52.8	47.2	42.0	58.0
	1969	13,318	12,038	10,590	14,766	25,356	52.5	47.5	41.8	58.2
	1970	15,066	13,838	11,669	17,235	28,904	52.1	47.9	40.4	59.6

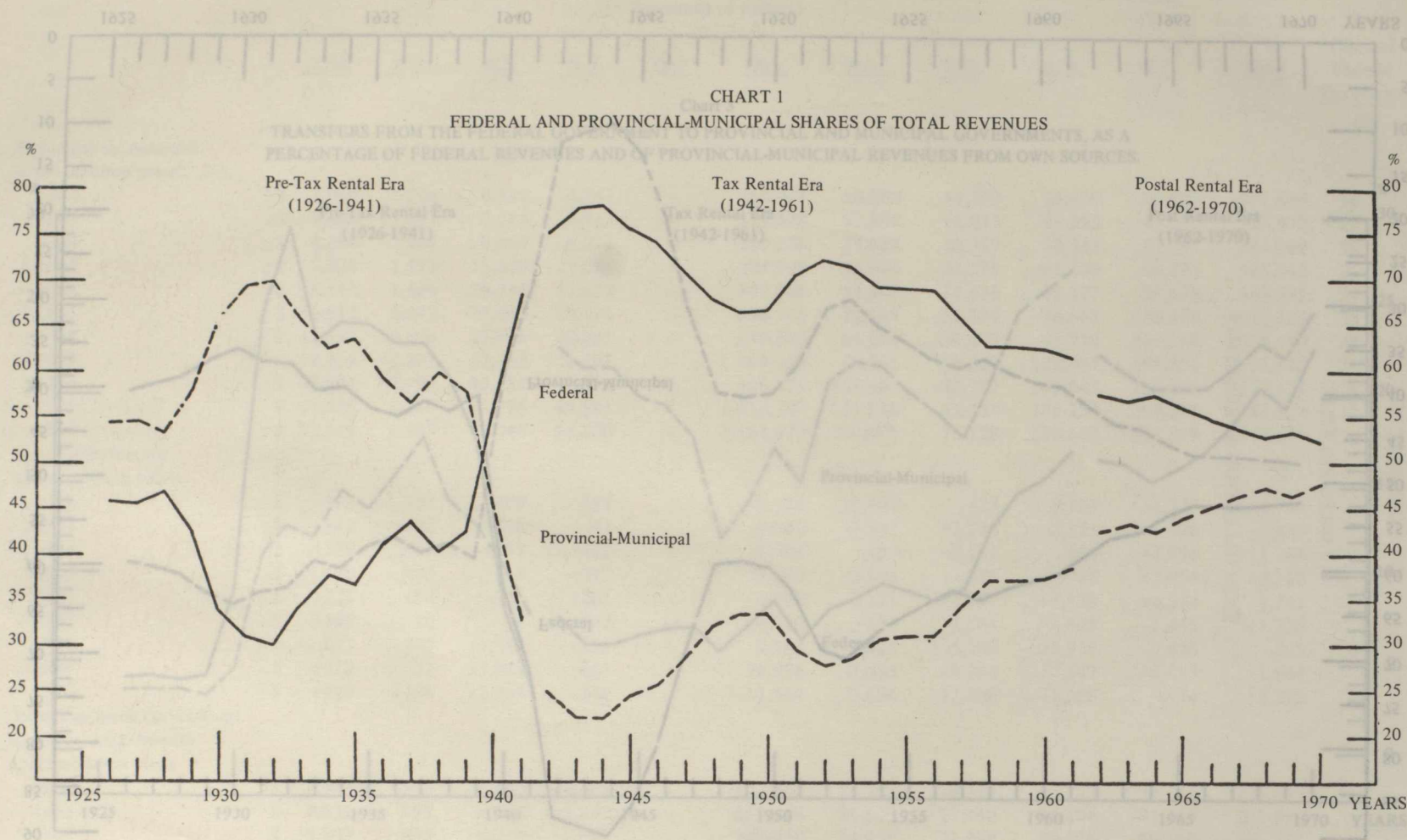


TABLE 3

TRANSFERS FROM THE FEDERAL GOVERNMENT TO PROVINCIAL AND MUNICIPAL GOVERNMENTS, AS A PERCENTAGE OF FEDERAL REVENUES FROM OWN SOURCES AND AS A PERCENTAGE OF PROVINCIAL-MUNICIPAL REVENUES FROM OWN SOURCES, NATIONAL ACCOUNTS DATA, 1926 - 1970

	(1)	(2)	(3)	(4)	(5)
	Federal Transfers to Other Levels of Government	Total Federal Revenues From Own Sources	Provincial-Municipal Revenues From Own Sources	Federal Transfers as a % of Federal Revenues From Own Sources	Provincial-Municipal Transfers Received as a % of Provincial-Municipal Revenues From Own Sources
	\$000,000	\$000,000	\$000,000	(Col. 1 ÷ 2) %	(Col. 1 ÷ 3) %
Pre-Tax Rental Era					
1926	15	370	437	4.1	3.4
1927	16	385	460	4.2	3.5
1928	17	429	489	4.0	3.5
1929	17	396	537	4.3	3.2
1930	25	271	538	9.2	4.6
1931	56	227	508	24.7	11.0
1932	62	211	487	29.4	12.7
1933	56	245	467	22.9	12.0
1934	71	294	489	24.1	14.5
1935	74	310	540	23.9	13.7
1936	91	399	580	22.8	15.7
1937	105	460	598	22.8	17.6
1938	86	411	610	20.9	14.1
1939	79	455	619	17.4	12.8
1940	70	856	674	8.2	10.4
1941	54	1,493	705	3.6	7.7
Tax Rental Era					
1942	150	2,010	662	7.5	22.7
1943	148	2,435	693	6.1	21.4
1944	155	2,576	721	6.0	21.5
1945	157	2,431	791	6.5	19.8
1946	174	2,595	895	6.7	19.4
1947	192	2,733	1,082	7.0	17.7
1948	150	2,667	1,262	5.6	11.9
1949	187	2,645	1,335	7.1	14.0
1950	251	2,962	1,471	8.5	17.1
1951	259	4,099	1,706	6.3	15.2
1952	368	4,616	1,781	8.0	20.7
1953	412	4,734	1,881	8.7	21.9
1954	430	4,531	1,995	9.5	21.6
1955	450	4,926	2,212	9.1	20.3
1956	485	5,610	2,521	8.6	19.2
1957	521	5,579	2,923	9.3	17.8
1958	663	5,311	3,153	12.5	21.0
1959	880	6,035	3,577	14.6	24.6
1960	994	6,406	3,839	15.5	25.9
1961	1,128	6,662	4,168	16.9	27.1
Post-Rental Era					
1962	1,134	6,855	5,057	16.5	22.4
1963	1,169	7,191	5,482	16.3	21.3
1964	1,252	8,209	6,102	15.3	20.5
1965	1,434	8,951	7,032	16.0	20.4
1966	1,662	9,888	8,123	16.8	20.5
1967	1,992	10,752	9,262	18.5	21.5
1968	2,452	11,966	10,723	20.5	22.9
1969	2,728	14,091	12,276	19.4	22.2
1970	3,397	15,054	13,745	22.6	24.7





ASSOCIATION OF BANKING EXPENDITURES BY YEAR OF GOVERNMENT ON A NATIONAL BASIS 1925-1970  
CHART 1



CHART 2

ALLOCATION OF INITIAL EXPENDITURES BY LEVEL OF GOVERNMENT ON A NATIONAL ACCOUNTS BASIS, 1926-1970

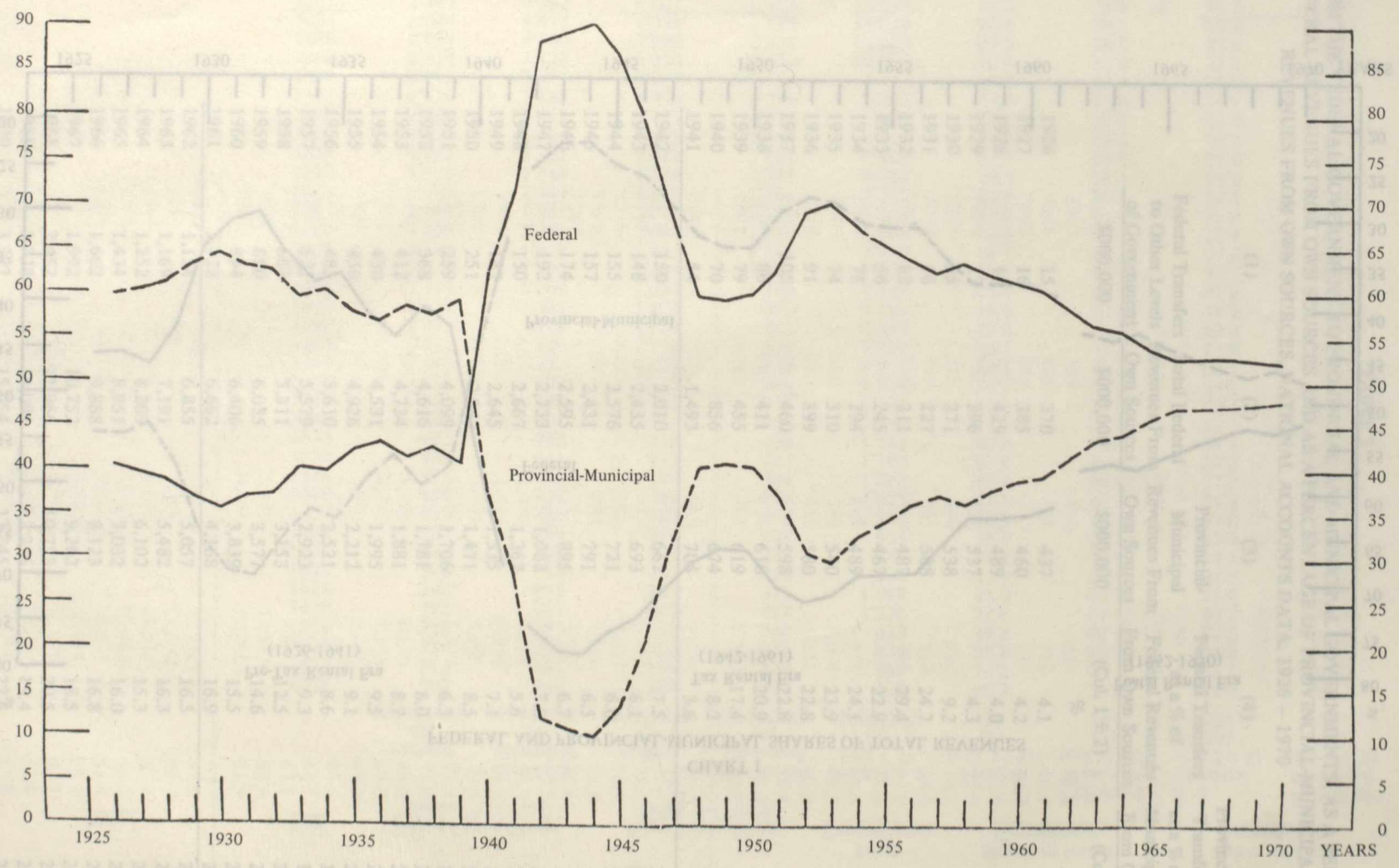
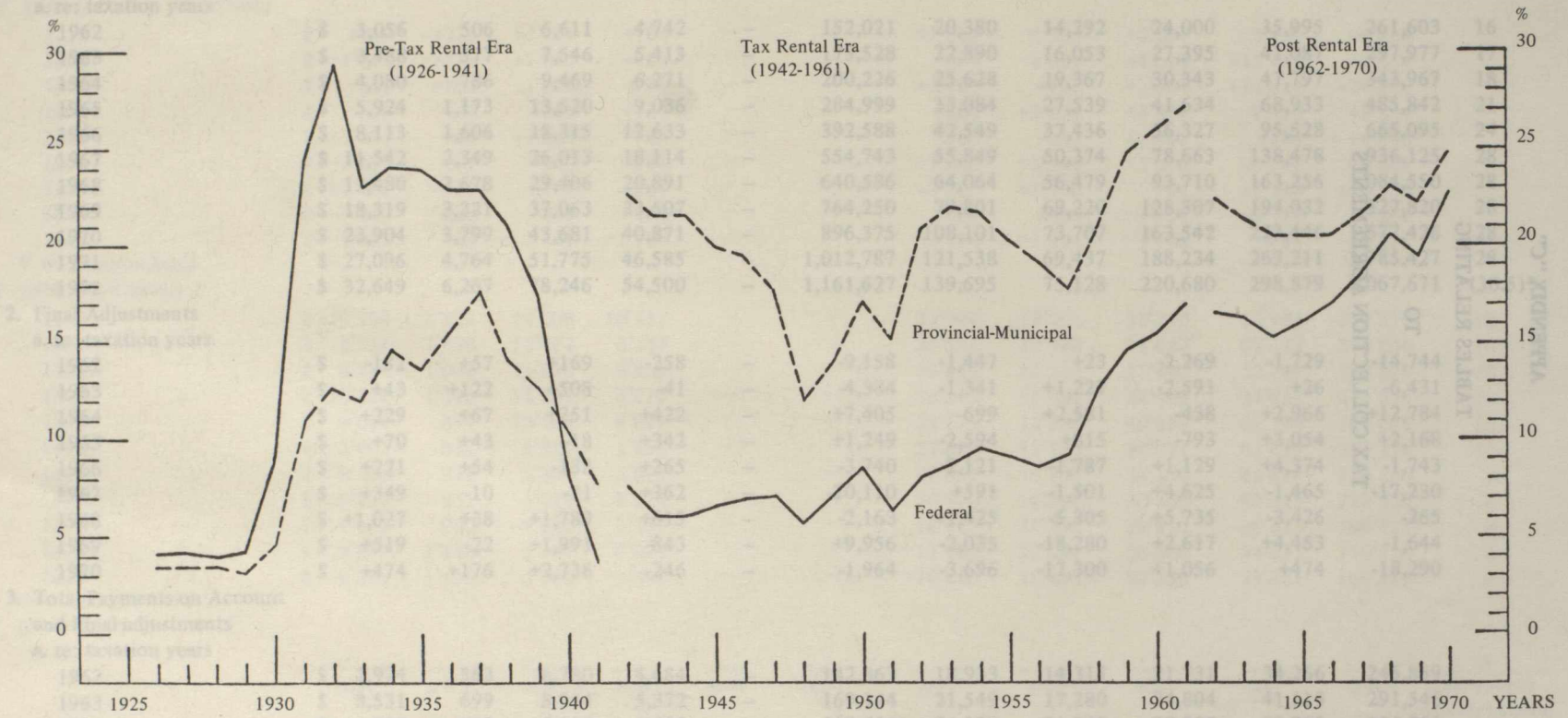




Table 1  
 INDIVIDUAL INCOME TAX COLLECTIONS PAYMENTS ON ACCOUNT AND FINAL ADJUSTMENTS  
 IN RESPECT OF THE FOLLOWING TAXATION YEARS 1962 to 1972  
 (in thousands of dollars)

	NOV.	DEC.	JAN.	FEB.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Total	General Federal Tax shared %
1962	\$ 3,055	508	6,611	4,742	182,021	20,380	14,392	24,000	15,895	261,603	16			
1963	4,413	1,606	18,315	12,633	392,588	42,549	37,436	27,395	68,933	485,842	16			
1964	5,924	1,173	13,520	9,036	264,999	33,084	27,539	31,34	68,933	485,842	16			
1965	8,113	2,349	26,033	18,314	554,743	45,849	50,374	30,343	78,563	665,095	16			
1966	11,891	2,339	25,942	18,476	634,033	66,440	48,375	83,288	137,011	948,893	16			
1967	14,507	2,716	31,395	21,506	628,432	65,489	51,174	99,443	159,830	1,084,283	16			
1968	18,838	3,299	39,054	32,664	774,288	72,766	50,940	130,924	195,485	1,326,176	16			
1969	24,378	3,975	46,417	40,625	894,411	104,405	56,407	164,598	233,926	1,559,136	16			

Chart 3  
 TRANSFERS FROM THE FEDERAL GOVERNMENT TO PROVINCIAL AND MUNICIPAL GOVERNMENTS, AS A  
 PERCENTAGE OF FEDERAL REVENUES AND OF PROVINCIAL-MUNICIPAL REVENUES FROM OWN SOURCES.



\*Under tax reform a provincial rate of 30.5 points is equivalent to 28 points prior to tax reform.







Table 1  
 INDIVIDUAL INCOME TAX COLLECTIONS PAYMENTS ON ACCOUNT AND FINAL ADJUSTMENTS  
 IN RESPECT OF THE FOLLOWING TAXATION YEARS 1962 to 1972

(in thousands of dollars)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total</u>	General Federal Tax abated %
1. Payments on Account												
a. re: taxation years												
1962	\$ 3,056	506	6,611	4,742	-	152,021	20,380	14,292	24,000	35,995	261,603	16
1963	\$ 3,488	577	7,546	5,413	-	173,528	22,890	16,053	27,395	41,087	297,977	17
1964	\$ 4,080	786	9,469	6,271	-	200,226	25,628	19,367	30,343	47,797	343,967	18
1965	\$ 5,924	1,173	13,520	9,036	-	284,999	33,084	27,539	41,634	68,933	485,842	21
1966	\$ 8,113	1,606	18,315	12,633	-	392,588	42,549	37,436	56,327	95,528	665,095	24
1967	\$ 11,542	2,349	26,013	18,114	-	554,743	55,849	50,374	78,663	138,478	936,125	28
1968	\$ 13,480	2,678	29,406	20,891	-	640,586	64,064	56,479	93,710	163,256	1,084,550	28
1969	\$ 18,319	3,321	37,063	33,507	-	764,250	79,801	69,220	128,307	194,032	1,327,820	28
1970	\$ 23,904	3,799	43,681	40,871	-	896,375	108,101	73,707	163,542	223,446	1,577,426	28
1971	\$ 27,096	4,764	51,775	46,585	-	1,012,787	121,538	69,437	188,234	263,211	1,785,427	28
1972	\$ 32,649	6,267	78,246	54,500	-	1,161,627	139,695	75,128	220,680	298,879	2,067,671	(30.5)*
2. Final Adjustments												
a. re: taxation years												
1962	\$ -132	+57	+169	-258	-	-9,158	-1,447	+23	-2,269	-1,729	-14,744	10
1963	\$ +43	+122	+508	-41	-	-4,384	-1,341	+1,227	-2,591	+26	-6,431	10
1964	\$ +229	+67	+251	+422	-	+7,405	-699	+2,581	-438	+2,966	+12,784	10
1965	\$ +70	+43	-18	+342	-	+1,249	-2,594	+815	-793	+3,054	+2,168	10
1966	\$ +221	+54	-138	+265	-	-3,740	-2,121	-1,787	+1,129	+4,374	-1,743	10
1967	\$ +349	-10	-71	+362	-	-20,110	+591	-1,501	+4,625	-1,465	-17,230	8
1968	\$ +1,027	+38	+1,789	+615	-	-2,163	+1,425	-5,305	+5,735	-3,426	-265	8
1969	\$ +519	-22	+1,991	-843	-	+9,956	-2,035	-18,280	+2,617	+4,453	-1,644	8
1970	\$ +474	+176	+2,736	-246	-	-1,964	-3,696	-17,300	+1,056	+474	-18,290	8
3. Total Payments on Account and Final adjustments												
a. re: taxation years												
1962	\$ 2,924	563	6,780	4,484	-	142,863	18,933	14,315	21,731	34,266	246,859	16
1963	\$ 3,531	699	8,054	5,372	-	169,144	21,549	17,280	24,804	41,113	291,546	17
1964	\$ 4,309	853	9,720	6,693	-	207,631	24,929	21,948	29,905	50,763	356,751	18
1965	\$ 5,994	1,216	13,502	9,378	-	286,248	30,490	28,354	40,841	71,987	488,010	21
1966	\$ 8,334	1,660	18,177	12,898	-	388,848	40,428	35,649	57,456	99,902	663,352	24
1967	\$ 11,891	2,339	25,942	18,476	-	534,633	56,440	48,873	83,288	137,013	918,895	28
1968	\$ 14,507	2,716	31,195	21,506	-	638,423	65,489	51,174	99,445	159,830	1,084,285	28
1969	\$ 18,838	3,299	39,054	32,664	-	774,206	77,766	50,940	130,924	198,485	1,326,176	28
1970	\$ 24,378	3,975	46,417	40,625	-	894,411	104,405	56,407	164,598	223,920	1,559,136	28

\*Under tax reform a provincial rate of 30.5 points is equivalent to 28 points prior to tax reform.



Table 2

Corporation Income Tax Collections  
 Payments on Account and Federal Adjustments  
 in respect of the following taxation years  
 1966 to 1972  
 (in thousands of dollars)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total</u>	<u>General Federal Tax Abated %</u>
<b>1. Payments on Account</b>												
a. re: taxation years												
1962	\$ 4,782	1,475	7,318	5,841	—	—	-16,810	10,842	25,922	33,521	106,511	9
1963	\$ 4,955	1,529	7,584	6,053	—	—	-17,420	11,236	26,862	34,737	110,376	9
1964	\$ 5,019	600	6,925	5,731	—	—	16,334	11,237	25,413	36,912	108,171	9
1965	\$ 6,874	827	7,985	6,574	—	—	20,430	14,904	30,702	46,932	135,228	9
1966	\$ 8,729	838	7,908	7,068	—	—	21,921	14,896	29,714	47,816	138,890	9
1967	\$ 7,667	933	8,881	7,586	—	—	22,981	15,190	34,051	63,835	161,124	10
1968	\$ 9,046	984	10,283	8,056	—	—	24,110	17,385	40,892	55,105	165,861	10
1969	\$ 10,164	1,257	12,041	9,514	—	—	29,312	21,831	56,063	71,671	211,853	10
1970	\$ 8,884	1,066	11,030	8,470	—	—	30,827	17,733	52,447	70,506	200,963	10
1971	\$ 8,271	1,320	12,463	9,729	—	—	32,203	15,148	57,643	83,113	219,890	10
1972	\$ 10,505	1,575	14,208	10,191	—	—	37,605	15,207	70,140	77,487	236,918	10
<b>2. Final Adjustments</b>												
a. re: taxation years												
1962	\$ -1,097	-937	-1,114	-1,134	—	—	-2,455	-1,347	-3,169	-634	-11,887	
1963	\$ +628	-858	-1,098	-713	—	—	-826	+870	-1,925	+3,116	-806	
1964	\$ +2,421	+114	-184	+294	—	—	+2,351	+1,460	-85	+3,749	+10,120	
1965	\$ -1,156	-61	-700	-351	—	—	-1,387	-2,317	-2,769	+5,646	-3,095	
1966	\$ -2,167	+18	+1,043	-55	—	—	-722	+391	+5,881	+198	+4,587	
1967	\$ -779	+70	+914	+114	—	—	+720	+2,211	+9,866	-6,942	+5,274	
1968	\$ -701	+107	+1,006	+612	—	—	+2,375	+697	+7,904	+14,836	+26,836	
1969	\$ -1,613	+126	+1,022	+683	—	—	-752	-5,954	+1,014	+12,410	+6,936	
1970	\$ +450	+329	+1,561	+561	—	—	+1,291	-4,257	+9,090	-2,426	+6,599	
<b>3. Total Payments on Account and Final Adjustments</b>												
a. re: taxation years												
1962	\$ 3,685	538	6,204	4,707	—	—	14,355	9,495	22,753	32,887	94,624	
1963	\$ 5,583	671	6,486	5,340	—	—	16,594	12,106	24,937	37,853	109,570	
1964	\$ 7,440	714	6,741	6,025	—	—	18,685	12,697	25,328	40,661	118,291	
1965	\$ 5,718	766	7,285	6,223	—	—	19,043	12,587	27,933	52,578	132,133	
1966	\$ 6,562	856	8,951	7,013	—	—	21,199	15,287	35,595	48,014	143,477	
1967	\$ 6,888	1,003	9,795	7,700	—	—	23,701	17,401	43,017	56,893	166,398	
1968	\$ 8,345	1,091	11,289	8,668	—	—	26,485	18,082	48,796	69,941	192,697	
1969	\$ 8,551	1,383	13,063	10,197	—	—	28,560	15,877	57,077	84,081	218,789	
1970	\$ 9,334	1,395	12,591	9,031	—	—	32,118	13,476	61,537	68,080	207,562	



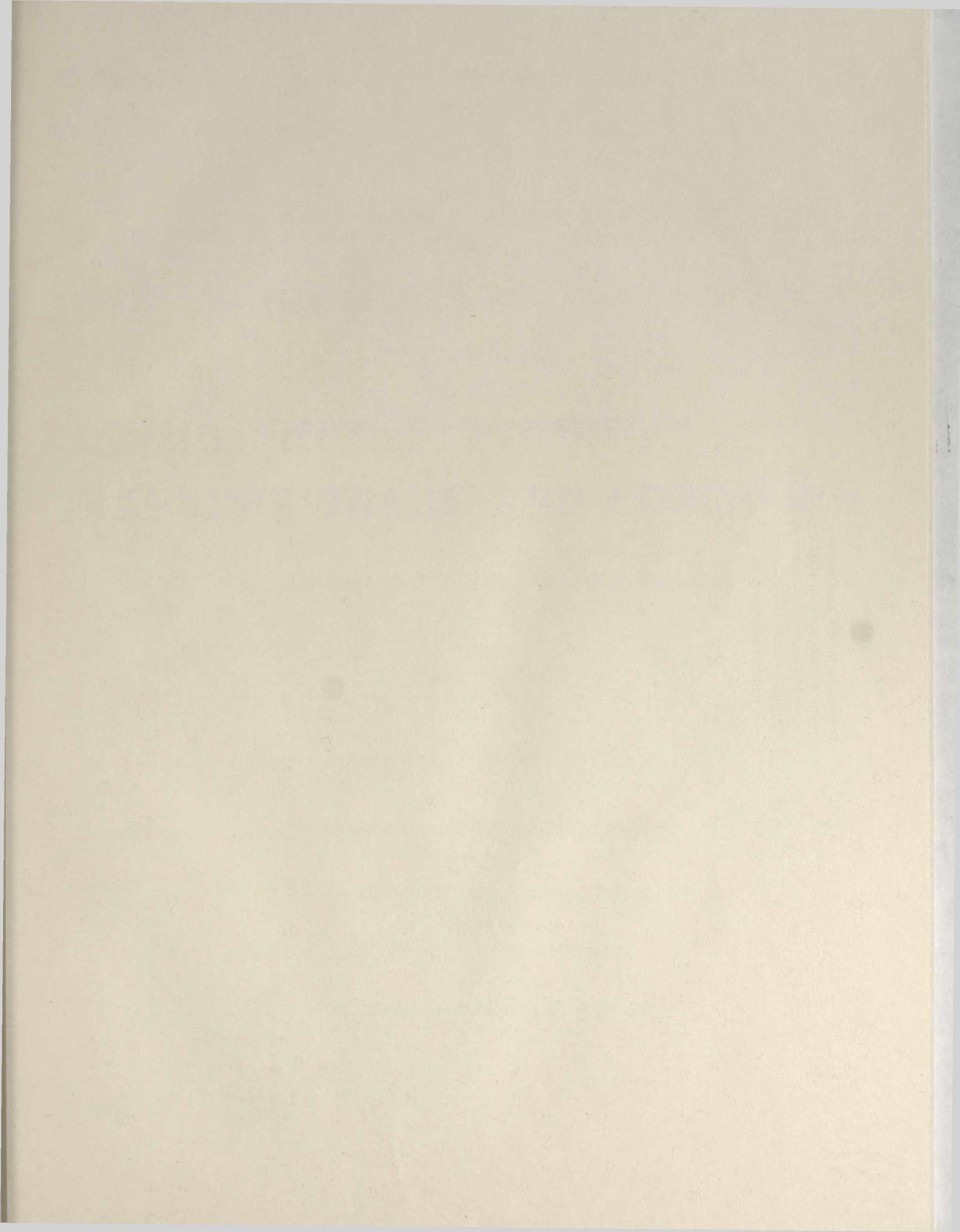




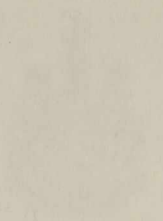
Table 2

Comparison Between Tax Collections,  
 Expenditures, and Final Adjustments  
 in respect of the following taxation years  
 1962 to 1970

(in thousands of dollars)

	1962	P.F.I.	N.S.	N.S.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total	General Funded Tax raised
<b>1. Payments on Account</b>												
a. in taxation years												
1962	\$ 4,783	1,475	7,318	5,941	--	--	16,810	10,862	26,922	33,551	106,812	2
1963	\$ 4,055	1,329	7,664	6,053	--	--	17,420	11,236	26,862	34,737	109,126	2
1964	\$ 5,019	600	6,923	5,721	--	--	16,334	11,257	25,413	36,912	108,171	2
1965	\$ 6,374	827	7,985	6,574	--	--	20,430	14,904	30,702	46,812	135,228	2
1966	\$ 8,729	838	7,908	7,068	--	--	21,921	14,896	29,714	47,816	138,090	2
1967	\$ 7,667	933	8,581	7,386	--	--	22,981	15,190	34,051	63,833	161,126	10
1968	\$ 9,046	964	10,285	8,056	--	--	24,110	17,385	40,892	53,102	165,561	10
1969	\$ 10,164	1,257	12,041	9,514	--	--	29,312	21,321	56,068	71,671	211,853	10
1970	\$ 8,884	1,066	11,030	8,470	--	--	30,827	17,733	52,447	70,506	200,963	10
1971	\$ 8,771	1,320	12,463	9,729	--	--	32,203	18,148	57,643	83,113	219,890	10
1972	\$ 10,505	1,575	14,208	10,191	--	--	37,605	18,207	70,140	77,487	236,918	10
<b>2. Final Adjustments</b>												
a. in taxation years												
1962	\$ -1,097	-97	-1,114	-1,134	--	--	-2,455	-1,347	-3,160	-634	-11,587	--
1963	\$ +638	-88	-1,098	-713	--	--	-826	+870	-1,925	+3,116	-806	--
1964	\$ +2,421	+114	-184	+294	--	--	+2,351	+1,460	85	+3,749	+10,120	--
1965	\$ -1,156	-61	-700	-351	--	--	-1,383	-2,347	-2,769	+3,646	-3,095	--
1966	\$ -2,167	+18	+1,043	-55	--	--	-722	+391	+2,881	+198	+4,587	--
1967	\$ -779	+70	+914	+114	--	--	+720	+2,211	+9,866	-6,942	+5,274	--
1968	\$ -701	+107	+1,006	+612	--	--	+2,373	+697	+7,034	+14,336	+26,836	--
1969	\$ -1,613	+126	+1,022	+683	--	--	-752	-5,954	+1,014	+12,410	+6,936	--
1970	\$ +450	+329	+1,561	+561	--	--	+1,291	-4,259	+9,090	-2,426	+6,599	--
<b>3. Total Payments on Account and Final Adjustments</b>												
a. in taxation years												
1962	\$ 3,685	538	6,204	4,707	--	--	14,355	9,493	22,753	32,887	94,624	--
1963	\$ 5,583	877	6,466	5,340	--	--	16,594	12,106	24,937	37,853	109,570	--
1964	\$ 7,440	714	6,741	6,023	--	--	18,685	12,697	25,338	40,641	118,291	--
1965	\$ 5,718	766	7,285	6,223	--	--	19,043	12,587	27,933	52,578	132,133	--
1966	\$ 6,562	856	8,951	7,013	--	--	21,199	15,287	35,595	48,014	143,477	--
1967	\$ 6,888	1,003	9,795	7,700	--	--	23,701	17,401	43,017	56,893	166,398	--
1968	\$ 8,345	1,091	11,289	8,668	--	--	26,485	18,082	48,796	69,941	192,697	--
1969	\$ 8,551	1,383	13,063	10,197	--	--	28,560	15,877	57,071	84,081	218,769	--
1970	\$ 9,334	1,395	12,591	9,031	--	--	32,118	13,476	61,537	68,080	207,562	--





THE SENATE OF CANADA

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

THE CANADIAN BANKERS ASSOCIATION

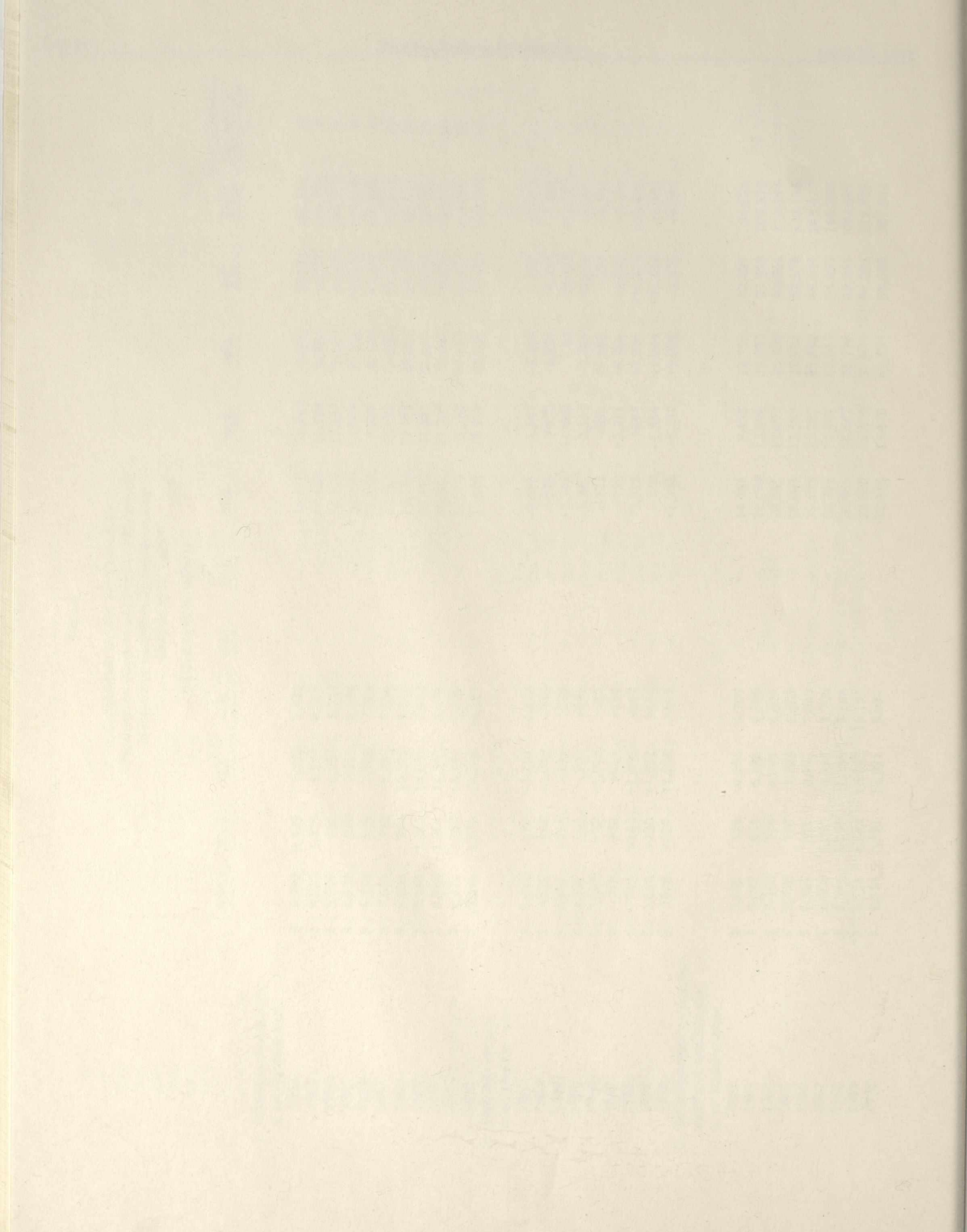
TORONTO, MARCH 1913

Printed and Published by the Queen's Printer

REPORT OF THE COMMITTEE

ON THE CANADIAN BANKERS ASSOCIATION







FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

The Honourable **SALTER A. HAYDEN**, *Chairman*

Issue No. 2

TUESDAY, MARCH 28, 1972

Complete Proceedings on Bill C-169,

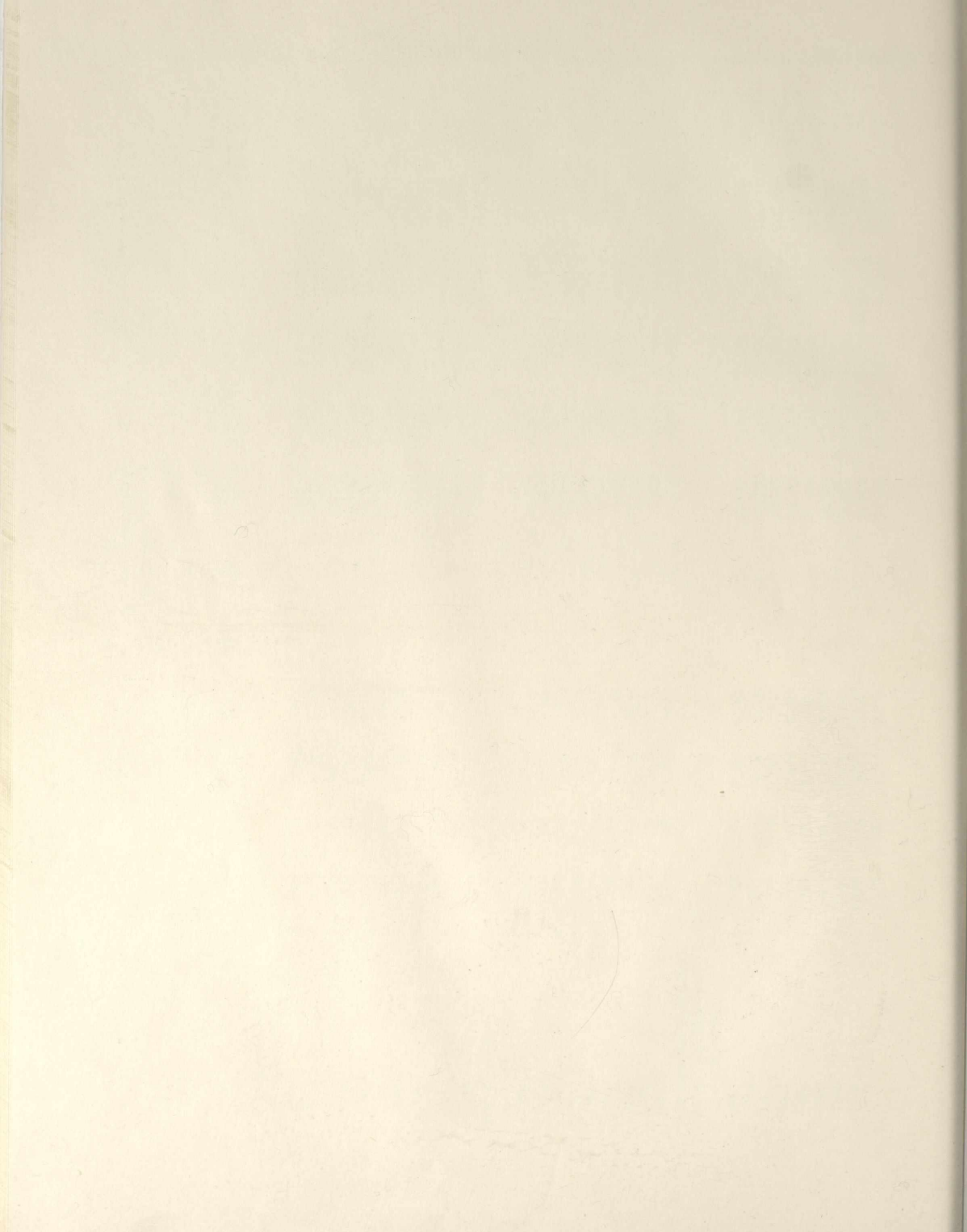
Intituled:

"An Act to amend the Income Tax Act"

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)







FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

**BANKING, TRADE AND COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

---

Issue No. 2

---

TUESDAY, MARCH 28, 1972

---

**Complete Proceedings on Bill C-169,**

Intituled:

**“An Act to amend the Income Tax Act”**

---

REPORT OF THE COMMITTEE

---

(Witnesses—See Minutes of Proceedings)





FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

THE STANDING SENATE COMMITTEE ON  
BANKING, TRADE AND COMMERCE

THE SENATE OF CANADA

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

PROCEEDINGS

THE

STANDING SENATE COMMITTEE ON

BANKING, TRADE AND COMMERCE

THE HONOURABLE SALTER A. HAYDEN, CHAIRMAN

- |                                 |             |
|---------------------------------|-------------|
| Aird                            | Hayden      |
| Beaubien                        | Hays        |
| Benidickson                     | Isnor       |
| Blois                           | Lang        |
| Bourget                         | Langlois    |
| Burchill                        | Macnaughton |
| Carter                          | *Martin     |
| Choquette                       | Molgat      |
| Connolly ( <i>Ottawa West</i> ) | Molson      |
| Cook                            | Smith       |
| Croll                           | Sullivan    |
| Desruisseaux                    | Walker      |
| Everett                         | Welch       |
| *Flynn                          | White—(29)  |
| Gélinas                         |             |
| Grosart                         |             |
| Haig                            |             |

\**Ex officio* members

30 Members (Quorum 7)

Complete Proceedings on Bill C-169,

Intituled:

"An Act to amend the Income Tax Act"

REPORT OF THE COMMITTEE

(Witnesses—See Minutes of Proceedings)

# Order of Reference

# Minutes of Proceedings

Extract from the Minutes of the Proceedings of the Senate,  
March 27, 1972:

Tuesday, March 28, 1972.  
(3)

"Ordered, That the Order of the Day for the second reading of the Bill C-169, intituled: "An Act to amend the Income Tax Act" be brought forward.

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m. to examine the following:

Pursuant to the Order of the Day, the Honourable Senator Hayden moved, seconded by the Honourable Senator Bourget, P.C., that the Bill C-169, intituled: "An Act to amend the Income Tax Act", be read the second time.

Bill C-169, "An Act to amend the Income Tax Act."  
Present: The Honourable Senators Hayden (Chairman), Bourget, Blais, Bourget, Bouchill, Gauthier, Connolly (Ontario West), Cook, Fyles, Inuit, Smith and Walsh (12)

After debate, and—  
The question being put on the motion, it was—  
Resolved in the affirmative.

WITNESSES:  
Department of Finance:  
Mr. A. E. J. Thompson,  
Director,  
Corporations and Business Income Division,  
Tax Policy Division.

The Bill was then read the second time.

The Honourable Senator Hayden, moved, seconded by the Honourable Senator Bourget, P.C., that the Bill be referred to the Standing Senate Committee on Banking, Trade and Commerce.

After discussion and upon motion, it was resolved to report the said Bill without amendment.

The question being put on the motion, it was—  
Resolved in the affirmative."

At 10:35 a.m. the Committee adjourned to the call of the Chairman.

Robert Fortier,  
*Clerk of the Senate.*

Frank A. Jackson,  
Clerk of the Committee.

ATTEST:



# Minutes of Proceedings

Tuesday, March 28, 1972.

(3)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9.30 a.m. to examine the following:

Bill C-169, "An Act to amend the Income Tax Act".

*Present:* The Honourable Senators Hayden (*Chairman*), Beaubien, Blois, Bourget, Burchill, Carter, Connolly (*Ottawa West*), Cook, Flynn, Isnor, Smith and Welch. (12)

## WITNESS

### *Department of Finance:*

Mr. A. E. J. Thompson,  
Director,  
Corporations and Business Income Division,  
Tax Policy Division.

After discussion and upon motion, it was *Resolved* to report the said Bill without amendment.

At 10.35 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*

# Report of the Committee and Commerce Evidence

Tuesday, March 28, 1972.

The Standing Senate Committee on Banking, Trade and Commerce to which was referred Bill C-169, intituled: "An Act to amend the Income Tax Act", has in obedience to the order of reference of March 27, 1972, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

**Salter A. Hayden,**  
*Chairman.*

Mr. Thompson: In clause 1 of the bill, which deals with the reduction in the individual tax, there are two elements. The first is a "tax otherwise payable under this Part", which refers to section 117 of the act, and also "any amount added to the tax otherwise payable under this part by the individual for the year, pursuant to subsection (4)". That is the 30 per cent on income earned outside a province. Would you illustrate how that would work? Take the man's tax otherwise payable under section 117, which is the individual rate, at whatever his marginal rate is. Let us assume that his tax amounts to \$2,000. Let us assume that he lives in a province other than Ontario, and that some of his income is earned in a province other than where he lives. How would the second part fit into this, in a contribution?

Mr. Thompson: In clause 1 of the bill, which deals with the reduction in the individual tax, there are two elements. The first is a "tax otherwise payable under this Part", which refers to section 117 of the act, and also "any amount added to the tax otherwise payable under this part by the individual for the year, pursuant to subsection (4)". That is the 30 per cent on income earned outside a province. Would you illustrate how that would work? Take the man's tax otherwise payable under section 117, which is the individual rate, at whatever his marginal rate is. Let us assume that his tax amounts to \$2,000. Let us assume that he lives in a province other than Ontario, and that some of his income is earned in a province other than where he lives. How would the second part fit into this, in a contribution?

Mr. A. E. J. Thompson, Director, Corporations and Business Income Division, Tax Policy Branch, Department of Finance: Mr. Chairman and honourable senators, in general terms, first of all, the tax called into question is referred to in paragraph (4) is the tax that would apply, say, in the Northwest Territories, in lieu of the standard provincial tax of 30.5 per cent. If, in your example, half of the individual's income were earned in the Northwest Territories, then this 30 per cent additional tax would apply to half the tax you referred to, that is, \$2,000.

The Chairman: If his marginal rate is 30 per cent, that would be another 30 per cent?

Mr. Thompson: It would be 30 per cent on his tax. It would not be on his marginal rate.

The Chairman: It would be 30 per cent on the tax that would be payable in addition to the income from the Northwest Territories.

Mr. Thompson: That is right.

The Chairman: Yes.

Mr. Thompson: That would be the additional tax. Then the 3 per cent abatement under Bill C-169 would apply to that.

The Chairman: So the 3 per cent would apply not only to the amount you arrive at by applying the marginal rate but also the amount you arrive at by applying the 30 per cent to his income in the Northwest Territories.

Mr. Thompson: That is right.

The Chairman: We were also told that Ontario had agreed to go along with the federal reduction of 3 per cent. For a resident of Ontario that means that the 3 per cent reduction is calculated only on what his marginal rate produces in the way of federal taxes.

Mr. Thompson: You are speaking of the Ontario income tax liability?

The Chairman: Yes. I am speaking about an Ontario resident and I am applying the 3 per cent reduction under clause 1. If Ontario has said it will go along with the federal 3 per cent reduction, then this means that the Ontario resident would get a 3 per cent reduction on the amount of his federal tax.

Mr. Thompson: And also on his Ontario personal income tax.

The Chairman: Yes. I have a slight doubt, but in any other province the resident would be paying income tax on any income that he earned in a province other than where he was born.

Mr. Thompson: Well, in the other provinces there would be this 3 per cent reduction in the federal income tax, but there would be just the standard provincial personal tax. Because those provinces, other than Ontario, have not cashed any 3 per cent reduction, their usual rate just applies. So that, for example, if the standard rate of personal tax in an existing province was 30.5 per cent of the federal tax, that rate would continue to apply in 1973 without the 3 per cent reduction.

The Chairman: Oh, yes.

Senator Flynn: If I pay \$2,000 to the federal treasury, I get the reduction of 3 per cent. That is \$60. If I pay the same amount to the Quebec treasury, and I think we pay approximately the same amount in Quebec, I do not get the reduction of 3 per cent on the tax payable to the provincial treasury.



# Minutes of Proceedings

# Report of the Committee

Tuesday, March 28, 1972

(3)

Present: The Honourable Norman Borden (Chairman),  
Messrs. John Bennett, Richard Curran, Kenneth (Ottawa West),  
Glen Fagan, Gene Smith and Willie (Ald.)

Bill C-169, "An Act to amend the Income Tax Act"

Present: The Honourable Norman Borden (Chairman),  
Messrs. John Bennett, Richard Curran, Kenneth (Ottawa West),  
Glen Fagan, Gene Smith and Willie (Ald.)

Present:

Mr. A. J. Thompson,

Director,

Corporate and Personal Income Division,

Tax Policy Division.

After discussion and upon motion, it was Resolved to report the  
bill without amendment.

At 10:15 a.m. the Committee adjourned to the call of the  
Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.

Tuesday, March 28, 1972.

The Standing Senate Committee on Banking, Trade and  
Commerce to which was referred Bill C-169, intituled: "An Act to  
amend the Income Tax Act", has in obedience to the order of  
reference of March 27, 1972, examined the said bill and now  
reports the same without amendment.

Respectfully submitted,

Senator A. Hayden,  
Chairman

# The Standing Senate Committee on Banking, Trade and Commerce

## Evidence

Ottawa, Tuesday, March 28, 1972

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-169, to amend the Income Tax Act, met this day at 9.30 a.m. to give consideration to the bill.

**Senator Salter A. Hayden (Chairman)** in the Chair.

**The Chairman:** Honourable senators, we have Mr. Thompson here this morning to answer questions. He is a director in the Tax Policy Branch, the Department of Finance.

Mr. Thompson, in clause 1 of the bill, which deals with the reduction in the individual tax, there are two elements. The deduction is calculated. One is "the tax otherwise payable under this Part", which refers to section 123 of the act, and also "any amount added to the tax otherwise payable under this part by the individual for the year, pursuant to subsection (1)." That is the 30 per cent on income earned outside a province. Would you illustrate how that would work? Take the man's tax otherwise payable under section 117, which is the individual rate, at whatever his marginal rate is. Let us assume that his tax amounts to \$2,000. Let us assume that he lives in a province other than Ontario, and that some of his income is earned in a province other than where he lives. How would the second part fit into this, in a calculation?

**Mr. A. E. J. Thompson, Director, Corporations and Business Income Division, Tax Policy Branch, Department of Finance:** Mr. Chairman and honourable senators, in general terms, first of all, the tax added that is referred to in paragraph (b) is the tax that would apply, say, in the Northwest Territories, in lieu of the standard provincial tax of 30.5 per cent. If, in your example, half of the individual's income were earned in the Northwest Territories, then this 30 per cent additional tax would apply to half the tax you referred to; that is, \$2,000.

**The Chairman:** If his marginal rate is 30 per cent, that would be another 30 per cent?

**Mr. Thompson:** It would be 30 per cent on his tax. It would not be on his marginal rate.

**The Chairman:** It would be 30 per cent on the tax that would be payable in relation to the income from the Northwest Territories.

**Mr. Thompson:** That is right.

**The Chairman:** Yes.

**Mr. Thompson:** That would be the additional tax. Then the 3 per cent abatement under Bill C-169 would apply to that.

**The Chairman:** So the 3 per cent would apply not only to the amount you arrive at by virtue of applying the marginal rate but also the amount you arrive at by applying the 30 per cent to his income in the Northwest Territories.

**Mr. Thompson:** That is right.

**The Chairman:** We were also told that Ontario had agreed to go along with the federal reduction of 3 per cent. For a resident of Ontario that means that the 3 per cent reduction is calculated only on what his marginal rate produces in the way of federal taxes.

**Mr. Thompson:** You are speaking of the Ontario income tax liability?

**The Chairman:** Yes. I am speaking about an Ontario resident and I am applying this 3 per cent reduction under clause 1. If Ontario has said it will go along with the federal 3 per cent reduction, then this means that the Ontario resident would get a 3 per cent reduction on the amount of his federal tax.

**Mr. Thompson:** And also on his Ontario personal income tax.

**The Chairman:** Yes. I have it straight now. But in any other province the resident would be paying income tax on any income that he earned in a province other than where he was living.

**Mr. Thompson:** Well, in the other provinces there would be this 3 per cent reduction in the federal income tax, but there would be just the standard provincial personal tax. Because those provinces, other than Ontario, have not enacted any 3 per cent reduction, their usual rate just applies. So that, for example, if the standard rate of personal tax in an agreeing province was 30.5 per cent of the federal tax, that rate would continue to apply in 1972 without the 3 per cent reduction.

**The Chairman:** Oh, yes.

**Senator Flynn:** If I pay \$2,000 to the federal treasury, I get the reduction of 3 per cent. That is \$60. If I pay the same amount to the Quebec treasury, and I think we pay approximately the same amount in Quebec, I do not get the reduction of 3 per cent on the tax payable to the provincial treasury.



**Mr. Thompson:** That is correct, because Quebec has not enacted any similar reduction.

**Senator Flynn:** So the amount payable under this part is really the amount payable to the federal treasury after deducting all you are entitled to deduct to account for the provincial tax.

**Mr. Thompson:** Well, under the new act the provincial tax is calculated as a percentage of the federal tax; but, essentially, that is right.

**Senator Flynn:** Yes. That is why I say that you deduct it before you apply the 3 per cent. Ontario has agreed that on the part which is deductible from the federal tax it would be paid of the Ontario government and they would allow also a 3 per cent reduction. Is that it?

**Mr. Thompson:** That is the effect. The mechanics are not quite the way you describe it, but that is the effect of it.

**The Chairman:** What I was trying to get at was the real application of section 120, which is referred to in clause 1. Section 120 says that:

120. (1) There shall be added to the tax otherwise payable under this Part by an individual for a taxation year an amount that bears the same relation to 30 per cent of the tax otherwise payable under this Part by him for the year that

- (a) his income for the year, other than his income earned in the year in a province,
- bears to
- (b) his income for the year.

So it would be a percentage of his provincial income over his total income, and that is in addition to his tax where the income is not earned in a province. Now, do you say, Mr. Thompson, that "province" there applies only to the Yukon and Northwest Territories?

**Mr. Thompson:** The Yukon and Northwest Territories are the jurisdictions to which this section applies, yes.

**The Chairman:** If, for example, I lived in Manitoba and I had 50 per cent of my income in Saskatchewan, I would pay the federal rate on my total income and I would get a 3 per cent reduction. Then I would pay provincial taxes in Manitoba and Saskatchewan, on whatever portion of the income was there, with no reduction on that part of it.

**Mr. Thompson:** That is right.

**Senator Flynn:** Mr. Chairman, did I understand that you were reading subsection (1), or were you interpreting it as applying only to the Yukon and Northwest Territories?

**The Chairman:** I read it, and then I asked Mr. Thompson if it applied only to those two jurisdictions. It does not say that in the section.

**Senator Flynn:** It does not say that? It is by inference only that we know that it applies to the Yukon and Northwest Territories?

**The Chairman:** Mr. Thompson, what is it that makes you say the section applies only to the Yukon and Northwest Territories?

**Mr. Thompson:** Well, paragraph (a) of that subsection (1) refers to income other than income earned in a province. Then, for this purpose, "province" is defined not to include the Northwest Territories and the Yukon.

**Senator Flynn:** Very well.

**The Chairman:** I expect we have cleared up that point. Are there any other questions?

**Senator Carter:** I am not quite clear on the mechanics of it. You pay a federal income tax, is that it? You calculate the federal income tax and deduct 3 per cent of your federal income tax, and your provincial tax then is based on the balance? How do you calculate your provincial tax?

**Mr. Thompson:** The provincial tax is based on the federal tax before the 3 per cent is deducted.

**Senator Carter:** Before it is deducted?

**Mr. Thompson:** That is right. So the provincial tax stays the same unless the province takes its own action.

**Senator Flynn:** May I ask what is the amount that the federal treasury will lose by this 3 per cent? What is it estimated at?

**The Chairman:** Do you mean on the individual?

**Senator Flynn:** Yes.

**Senator Cook:** It will be \$400 million in two years.

**The Chairman:** The figures I gave last night were \$125 million for the 1971-72 year and \$225 million for the fiscal year 1972-73, for a total of \$350 million.

**Senator Flynn:** Why is the first year \$125 million?

**The Chairman:** Because it is only half a year in 1971-72.

**Senator Flynn:** And that represents 3 per cent? So what is the total amount expected to be collected under the new Income Tax Act?

**Senator Bourget:** It would be about \$8 billion.

**The Chairman:** No.

**Senator Bourget:** If you multiply \$225 million by 33 it gives you just about \$7.5 billion.



**The Chairman:** The 3 per cent represents \$350 million.

**Senator Flynn:** I thought you said it was \$225 million.

**The Chairman:** It is \$225 million for the second year, and \$125 million for the first year.

**Senator Cook:** You are adding the two years together. He wants to know what it is in one year.

**The Chairman:** In one year?

**Senator Bourget:** It is just about \$7.5 billion.

**The Chairman:** Well, first of all, it is only a guess. There are certain periods in the year when more money comes in than in other periods. You see that in the reflection of corporate taxes, for example.

**Senator Flynn:** I was interested in finding out what is going to be collected in 1972 under the new Income Tax Act, and what was collected, say, in 1970 or 1971, whichever are the latest figures that you have.

**The Chairman:** Well, then you would take the \$225 million, which is the second full year.

**Senator Bourget:** And you would get \$7.5 billion.

**Senator Flynn:** I agree that it would be between \$7 billion and \$8 billion, but how does that compare with 1970-71?

**Mr. Thompson:** I do not have those figures on hand, senator. They would be in the budget White Paper.

**The Chairman:** Would you make a point of getting those figures for me, and just drop me a note so that I can send out a memo to the committee?

**Senator Flynn:** I would be interested in knowing whether there is a real reduction in income tax under the new system or new act.

**Senator Cook:** The yield could remain the same, and yet there could still be a decrease.

**The Chairman:** It is supposed to remain relatively the same.

**Senator Flynn:** That is why I am interested in this.

**The Chairman:** You note my language: "supposed to remain relatively the same." The volume may go up, but the relationship is supposed to remain the same.

**Senator Flynn:** Perhaps the witness could also supply similar figures with respect to corporate income tax.

**The Chairman:** Yes. Could you give us both sets of figures, Mr. Thompson? You can drop me a note and I can distribute it to the committee.

**Mr. Thompson:** Yes.

**Senator Cook:** In other words, the proportion of the Gross National Product should go down although the yield might not be as much. In theory the proportion of the GNP that the government is taking should be a little less, although the actual yield may be a little more since the GNP is going up all the time.

**The Chairman:** Are we through with that particular question?

Then we move into the area of the 7 per cent reduction in the corporate tax otherwise payable, and I suppose the main calculation is an easy one to make, in the sense that you determine what your corporation tax is and you have a reduction of 7 per cent. Is it when you come to the refundable portion, both of capital gains tax and income tax, that you run into problems, and Senator Bourget and I know something about them now. I am not sure yet that the procedure we used to arrive at a figure that agreed with the figure in the statute is the correct way, but it reached the correct result.

**Senator Cook:** Is the department going to issue all companies with a slide-rule?

**The Chairman:** Mr. Thompson, in dealing with the consequential amendments, there are really two of them in clause 3 and clause 4. Would you address yourself to clause 3, which is the consequential amendment in relation to the refundable tax connected with investment income of investment companies?

**Mr. Thompson:** Mr. Chairman, clause 3 relates principally to corporations which are classified under the act as private corporations. The intention of the refund mechanism is that once interest income, for example, of a private corporation is passed out as a dividend, there would be no corporate tax as such levied on that income in the end result. First of all, the corporation pays 50 points of tax, but then at the time they distribute they get a refund of half of that, and are left with 25 points of tax at the corporate level for which the dividend tax credit provides offsetting relief to the individual shareholder. So, the individual who puts his investment in a corporation for other purposes has the same eventual tax burden as if he held the investment directly himself. That is the intention of the mechanism.

Now, with the 7 per cent reduction in the corporate tax—the 50 points—it necessarily follows that the refund has to be reduced by 7 per cent as well. That is why you find in clause 3 that the refund is 93 per cent of what it otherwise would have been.

**The Chairman:** It spells it out, because you may have cases of corporations having investment periods other than calendar years, and that is why you have several of the subclauses appearing in clause 3. This covers how to calculate when it is part of one year and part of another year so the rate of reduction is constant.

**Senator Flynn:** And it applies from January 1, 1972.



**The Chairman:** Yes, but the taxation year of a company that starts on July 1, 1971 would end on June 30, 1972, so that you have a portion of both years in there. That is why they have gone to the extent they have in clause 3 to spell that out. It is not complicated; in fact, it is easy to understand that that is the purpose of it; but if you were asked to put a name on that 93 per cent, what would you call it?

**Mr. Thompson:** Well, in a way it is half of the reduced federal tax, but I would not want to put a simple name on it. I would be interested in your simple name for it, if you have one.

**The Chairman:** Well, I am asking you to name it. What you say here is 93 per cent of that portion of the amount so determined in section 129, but what is the 93 per cent when you get it? What do we call it?

**Mr. Thompson:** Well, it is easier to describe the amount to which the 93 per cent is applied. It is half the corporate tax on the private corporation which is refundable; in other words, it is a refundable corporate tax to a private corporation.

**The Chairman:** Let us take an investment company with an income of \$10,000. Now it pays out \$10,000 in dividends.

**Mr. Thompson:** It has interest income of \$10,000?

**The Chairman:** Yes, and it pays it out in dividends.

**Mr. Thompson:** Well, we will have to go through the tax it pays first. It has \$10,000 of interest income and its gross corporate tax liability is \$5,000. Then, without this reduction, it has a refundable tax of half that, which is \$2,500, so that the net tax by the time it distributes is \$2,500, so it can pay a dividend of \$7,500. If it just has one individual resident shareholder, let us say, in a 50 per cent bracket, he would have a dividend of \$7,500 which he would gross up to \$10,000, and he would have a \$5,000 liability against which he would have \$2,500 credit, so that he would pay a further \$2,500 in tax and end up netting \$5,000. On the original interest income of \$10,000 he has netted \$5,000, the same as if he had held the bonds directly.

**The Chairman:** That is all very well, but now let us apply the 7 per cent refundable.

**Senator Beaubien:** Mr. Thompson, did you say "bond interest"? Surely you do not gross up on bond interest?

**Mr. Thompson:** No, but if the interest is received by the company first and tax is paid in this manner, it emerges from the company as a dividend. Instead of being interest of \$10,000, it emerges from the company as a dividend.

**Senator Beaubien:** I understand that, but I thought you said "bond interest" at one stage.

**Mr. Thompson:** I was just pointing out that if this were interest on bonds and if he received the interest directly, the net amount

after taxes would be the same as if the bonds were held in the company.

**The Chairman:** Now let us get down to the reduction part of it.

**Mr. Thompson:** The figures get a little harder to recite, but the \$5,000 corporate tax liability would be reduced by 7 per cent, so that it would end up at \$4,650. The refund would be 93 per cent of \$2,500, what it would otherwise be under the terms of the legislation. This would be half the corporate tax after the reduction, or, in other words, \$2,325. So, in this particular case the corporation would have a surplus of \$7,675 which would be a little more than it otherwise would have enjoyed.

**The Chairman:** Yes, if there is a tax reduction it would have to enjoy some surplus.

**Mr. Thompson:** Yes, that is right. It could then pay a dividend of \$7,675 which would be grossed up, as it was before, and with a credit for that gross-up.

**Senator Flynn:** The purpose of the bill is to allow a seven per cent reduction of the tax otherwise payable. It does not matter what the mechanism is. That will be their problem, I am afraid.

**The Chairman:** Yes, I was curious to know how simple or difficult this matter was arithmetically. It is not merely a case where you take 93 per cent of the tax otherwise payable in relation to the part which is refundable. First of all, on an interest income of \$10,000 the tax otherwise payable would be \$5,000 which is the general corporate tax. Then, if the refundable is 50 per cent of that amount you are actually paying \$2,500. When I figure the seven per cent reduction, it is seven per cent of the basic tax of 50 per cent as it has been affected and reduced by the amount of the refundable. This is supposed to translate into this rate of 93 per cent. But of what is this 93 per cent?

**Mr. Thompson:** It is 93 per cent of the refundable tax.

**The Chairman:** 93 per cent of the \$2,500 that I have used in my illustration. In that case, instead of receiving a refundable of \$2,500, I will receive \$2,500 less the seven per cent?

**Mr. Thompson:** That is correct.

**The Chairman:** Is that clear to the committee?

**Senator Connolly:** Mr. Chairman, I suppose that from the taxpayer's point of view the forms which he is required to fill out will, in fact, reflect the provisions of the sections; and this would be a fairly simple calculation, provided he is confident that the form actually complies with the provisions of the Act.

**The Chairman:** Well, quite apart from that, it would be very nice if the members of this committee understood how this works out.

**Senator Bourget:** It is our business to know how this works out.



**Senator Cook:** I feel you are asking too much, Mr. Chairman.

**The Chairman:** No, I do not think so.

**Mr. Thompson:** Mr. Chairman, I might add that the combined effect is to reduce the net corporate tax by seven per cent. This has to be split between these two items, because the refund may not take place at the same time.

**The Chairman:** It could work out this way: if the intention is to reduce the basic tax by seven per cent, seven per cent of \$5,000 is \$350. Under the law, this is divided equally between the tax which you pay and the amount of refundable tax which you receive. If that \$350 is divided in this manner, my real tax deduction is \$175, is that correct?

**Mr. Thompson:** That is correct.

**The Chairman:** That was our approach last evening, was it not, Senator Bourget?

Are there any other questions on this matter?

**Senator Bourget:** Last evening I required Senator Hayden's assistance because he drew my attention to the fact that it was a five per cent abatement and it was calculated at five per cent.

**Senator Flynn:** The provincial corporate income tax is not decreased by these reductions.

**Mr. Thompson:** No, the provincial corporate tax would apply at the same rate.

**Senator Flynn:** Yes, perhaps with the exception of Ontario.

**Mr. Thompson:** No, they have only adjusted the personal income tax.

**Senator Connolly:** In other words, as Senator Flynn has indicated, if the federal authorities reduced or increased the taxes, it would be up to the provinces to levy their own taxes accordingly. What is done on the federal level does not affect the rate or amount of the provincial tax.

**The Chairman:** I think that is correct.

**Mr. Thompson:** In general terms, that is correct.

**The Chairman:** Are there any other questions on this subject?

If not, let us turn to clause 4 which has to do with refundable capital gains. This is the point at which the figure of 91.25 per cent may become enshrined for all posterity. This rate reflects the reduction by reason of the refundable portion of the capital gains tax. Would you care to explain how you arrived at the figure of 91.25 per cent?

**Mr. Thompson:** There are a number of ways to look at it.

**The Chairman:** Let us deal with an actual case. This applies to mutual funds and private investment companies, is that correct?

**Mr. Thompson:** Mutual funds and investment corporations. It does not apply to private corporations which are covered under another provision. It applies to the capital gains of mutual funds and investment corporations as defined in the Income Tax Act.

**Senator Carter:** Does it apply to capital gains for individuals?

**The Chairman:** No, this is a corporate tax.

**Senator Flynn:** The three per cent tax would apply to the capital gains tax payable by an individual. You just consider half of your gains as income, and it should be taxed as such. It would be interesting now to have a capital gain.

**The Chairman:** Mr. Thompson, I hope this problem will not take as long for you to figure out as it took Senator Bourget and myself last evening.

**Senator Connolly:** I prefer your suggestion, Mr. Chairman, that we take an actual case and work from there.

**The Chairman:** The witness is taking an example now.

**Mr. Thompson:** For instance, in the case of a capital gain of \$100 in the mutual fund, one-half of the capital gain is taxable, in other words, \$50, and is subject to federal corporate tax of 40 per cent, which is \$20, and provincial tax, for the sake of simplicity, of 10 per cent, which would be \$5. There is therefore \$25 of tax and the mutual fund has \$75 of surplus. Without the current reduction the federal government refunds the whole \$20 upon distribution by the mutual fund. I might point out that that is all the tax it receives. The province is expected to refund the other \$5, so that the mutual fund corporation would be in a position to distribute the whole \$100 of capital gain.

**The Chairman:** The tax is applied finally against the person who receives the distribution.

**Mr. Thompson:** Yes.

**Senator Connolly:** At the marginal personal rate.

**The Chairman:** That is right.

**Mr. Thompson:** Yes, it would be taxed to the individual investor as a capital gain.

**Senator Connolly:** The whole \$100.

**The Chairman:** The individual would receive his tax credit.

**Mr. Thompson:** No, this would be a capital gain, Mr. Chairman, half of which would be included in income.

**The Chairman:** You are correct. Half would go into income.



**Senator Connolly:** Therefore half would be taxed at his marginal rate.

**The Chairman:** And half would come out without tax.

**Mr. Thompson:** The portion with which we are concerned is the \$20 of federal tax.

**Senator Connolly:** I believe the purpose was clarified at a committee meeting earlier, but it has escaped me. The tax is levied on the mutual fund, \$20, for example, for the federal government and \$5 for the provincial government, before distribution is made.

**The Chairman:** Both of them being refundable.

**Senator Connolly:** When the distribution is made they become refundable. Why is that course taken?

**The Chairman:** To force distribution.

**Senator Connolly:** I remember now. That is it.

**Senator Flynn:** Is it a good thing to force distribution?

**The Chairman:** In some aspects it is.

**Senator Connolly:** It is in a mutual fund. I suppose it would be bad in an operating business, where the capital might be needed for re-investment.

**The Chairman:** That is correct. It would be bad in a business which is set up to accumulate funds for certain capital purposes. They would pay a penalty for doing that and would have to assess whether to do it in that manner, as individuals, or borrow the money.

**Senator Cook:** If they can borrow.

**The Chairman:** These are aspects with which, while we comment on them today, we are less concerned than with the arithmetical mechanics.

**Senator Flynn:** Yes, we have passed the act.

**Senator Connolly:** I had forgotten the reason for it, but there is no question that it is as you say.

**Mr. Thompson:** I might comment with respect to that broader question that if the capital gain to a mutual fund or private corporation is not distributed within the year, the taxes will still be refundable in a later year.

**The Chairman:** Is there not a limit of four years?

**Mr. Thompson:** No, there is no limit.

**Senator Flynn:** It could be distributed 10 years later and the same credit would be granted.

**Mr. Thompson:** That is right.

**The Chairman:** But when is the tax payable?

**Mr. Thompson:** The corporation would have to pay the \$25 of tax, but so would an individual.

**Senator Flynn:** But the refund would be received in any event upon distribution of the surplus.

**The Chairman:** That is correct, but the tax bite would apply in the year in which the gain was made.

**Mr. Thompson:** That is right, but it applies equally to an individual.

**The Chairman:** That is correct. You were going along the route to arriving at 91.25 per cent.

**Mr. Thompson:** We are concerned with the federal tax refund which, in this example, is \$20, being the net federal rate of 40 per cent applied to half the dividend.

**Senator Connolly:** Half the capital gain.

**Mr. Thompson:** Yes, you are correct, it is the capital gain. The 7 per cent reduction is applied not to the net federal rate of 40 per cent, but to the gross federal rate of 50 per cent, resulting in a reduction of 3.5 points.

**Senator Connolly:** This will confuse the committee because now you are not speaking of percentage, but of percentage points.

**The Chairman:** We have reached the point of saying that in dealing with this type of corporation to begin with the basic rate is applied. If we stop there, the 7 per cent reduction would be 7 per cent of the 50 per cent. Is that right? That would be 3.5 per cent.

**Senator Connolly:** No, because the 50 per cent is not tax. This is a reduction in tax, not a reduction in taxable amount.

**The Chairman:** No, that is quite true. Maybe we had better do it in dollars and keep to our example of \$10,000.

**Mr. Thompson:** We could continue with the \$100 of capital gain. The tax reduction of 7 per cent for 1972 results in \$1.75 on \$20.

**Senator Bourget:** To apply that to \$100, \$1.75 must be multiplied by 5.

**Mr. Thompson:** If we could just carry on with these figures for the moment, we have \$20 of refund, but the tax reduction of 7 per cent amounts to \$1.75. The net federal tax to be refunded is therefore only \$18.25.

**Senator Carter:** \$1.75 is 7 per cent of \$25, is it not, rather than of \$20?



**Mr. Thompson:** This is the point I endeavoured to explain before. That is correct, because mechanically the 7 per cent reduction is applied to the federal tax before the 10-point provincial abatement. The confusion arises from this.

**The Chairman:** This is where the honourable senator and I became confused last night. I believe you may have been the author of this schedule, which reads something like this, that the effect of the 7 per cent reduction of these capital gains may be shown arithmetically as follows. The first item is the basic tax, which in those circumstances in relation to this type of company, under section 123 is 25 per cent. The full rate is 50 per cent, but since we are speaking of capital gains, it is 25 per cent. A 7 per cent reduction on 25 per cent is 1.75 per cent, resulting in an effective tax rate of 23.25 per cent.

The next thing we must do is deduct the 10 per cent abatement for provincial tax from the 25 per cent, which is the basic tax on the capital gain. That gives us five, and gets our actual federal tax liability down to 20. The 7 per cent reduction of 1.75 gets the effective tax rate, after reflecting the reduction, down to 18.25.

We got that far all right last night, senator. The refundable then comes in. Can you pick up from there, Mr. Thompson?

**Mr. Thompson:** In the case of a capital gain on a mutual fund, the entire federal tax is refunded. Therefore, it is the same figure.

**The Chairman:** If the entire federal tax is refunded, why is there a tax reduction?

**Mr. Thompson:** Well, mechanically, if the entire capital gain on a mutual fund is distributed in 1972, there is no federal corporate tax, and therefore there is no corporate tax reduction. In other words, the 7 per cent applies only to whatever net federal tax there is on the capital gain on a mutual fund. If distribution is assumed in the same year, which is likely to be the case, there is no net federal tax on mutual funds, and therefore no corporate tax reduction. However, the individual investor would report the capital gain, and would claim his personal tax reduction.

**The Chairman:** Is it fair to say that the refundable portion of the capital gains tax, by reason of the 7 per cent reduction on the basic rate, is less than it would otherwise be?

**Mr. Thompson:** Yes.

**The Chairman:** Is that not where the difference develops? The refundable would be 25. That is half the corporate rate, but according to our calculation, it gets down to 20. That is what the refundable would be—No, the refundable would be 18.25, which is the effective tax rate.

**Mr. Thompson:** Yes. That is the net federal tax of 20, minus the 7 per cent reduction on \$25.

**The Chairman:** I have gone that far with you. Now, how do we end up with 91.25 per cent?

**Mr. Thompson:** The \$18.25 is 91.25 per cent of \$20.

**Senator Connolly:** Yes.

**Senator Flynn:** It is 70 per cent of \$25.

**Mr. Thompson:** Which is \$1.75, which is 8.75 per cent of \$20. Therefore the reduction is 8.75 per cent of \$20, or, putting it another way, one is left with 91.25 per cent of the \$20 refund.

**Senator Flynn:** One does not need to go to the same trouble when calculating the refundable portion of the tax. In clause 3 it says 93 per cent, which is 100 less the 7 per cent decrease. Generally speaking, the percentage of decrease is based on the rate of 50 per cent.

**Mr. Thompson:** The fact that the 7 per cent applies to the basic rate of 50 per cent causes this difficulty, because the federal government keeps only 40 points, really.

**Senator Flynn:** I suppose we have to make an act of faith.

**The Chairman:** Did you say "fate" or "faith"?

**Senator Flynn:** Both.

**Senator Blois:** Is it not possible to have a bill drafted in simpler terms? We have here people who are experts, and they do not understand it, and you have been working on this since last night. How is a small corporation likely to figure it out? Surely there must be a way of drafting the bill in simpler terms which the average person can understand.

**The Chairman:** The delay on my part, and that of my professional assistant, in reaching a conclusion last night was because we did not immediately seize on the 10 per cent provincial abatement which reduces that basic tax rate. Therefore our figures were out. The moment we recognized that the 10 per cent provincial abatement should be reflected, the figures fell into place. To simplify it and to apply the reduction in situations where there is an element of refundable tax is difficult, no matter what one might say about it. Since the reduction is primarily a reduction in the basic rate, one has to start from there and move along, and still reflect the refundable portion.

The department has selected one way of doing this. It has been consistent in clauses 3 and 4 by taking 93 per cent and 91.25 per cent. I suppose they might just as easily have used the figure 8.74 per cent.

**Senator Flynn:** It is not the fault of the drafters. It is a political decision to reduce by 3 per cent the present rate. Instead of saying, "We are decreasing the rate by 3 per cent", it might have been better to say, "We are decreasing the rate from 40 per cent to 37 per cent." Let us have fixed figures. Replace the figures that are presently in the bill with more definite figures. It is not the fault of the drafters; it is the fault of the decision-makers.



**The Chairman:** Instead of using these calculations, would it not be more practicable to take the result of these calculations and then take a percentage figure?

**Mr. Thompson:** Part of the difficulty with refunds, Mr. Chairman, is that they may not occur at the same time as the original tax. The other approach was considered, but this seemed to be the preferable one.

**Senator Carter:** The \$18.25 figure is what we get back. Instead of \$20, we get \$18.25.

**Mr. Thompson:** It represents both what one pays the federal government and what one gets back upon distribution.

**The Chairman:** You get back the effective rate.

**Senator Carter:** One is going to get it back, anyway. It does not seem to amount to much. One might as well pay 20 per cent and get back \$20 as pay 18.25 per cent and get back \$18.25.

**The Chairman:** Except that the law entitles you to a refund on capital gains tax and it is limited to 7 per cent. You have to reflect that in connection with the basic rate, and that requires a calculation.

I am sure there would be a good deal of yelling if you said, "Well, we will simplify this and recommend that you pay \$20 and receive \$20 back".

**Senator Flynn:** I suppose the problem is that all of this is done by computers.

**Senator Flynn:** Computers will check all the returns.

**The Chairman:** Yes.

**Senator Flynn:** You do not like me to exaggerate the importance of computers in your department. I can understand that, but in fact that is the case.

**Mr. Thompson:** The Department of National Revenue uses computers to some extent.

**Senator Flynn:** My experience is that if the computer fails to register a payment made to the government it takes a long time before it is found.

**Senator Cook:** You know what they say about programming computers: Garbage in, garbage out.

**The Chairman:** We have dealt with the two consequential clauses.

**Senator Carter:** Before we go on, Mr. Chairman, may I just make sure that I have this straight? The \$100 is cut down to \$50 because only half of a capital gain is taxable, and you then take 40 per cent of that, which is \$20, and the refund is calculated by taking 91.25 per cent of \$20, instead of going through all of the mathematical calculations you went through. Is that what you do?

**Mr. Thompson:** That is right. The refund is 91.25 per cent of the \$20.

**Senator Carter:** And the \$20 is the net amount, once the federal share and the provincial share are taken out?

**Mr. Thompson:** Yes.

**The Chairman:** The only two clauses left are the transitional ones, and I think they speak for themselves. The transitional clauses provide a legal basis, technically, for giving these benefits which are given in 1972—in other words, to enable them to apply right through the period that we are dealing with which includes 1971.

These clauses provide that transitional authority, do they not, Mr. Thompson?

**Mr. Thompson:** That is right, to pro rate the time period according to the way the fiscal year overlaps January 1, 1972.

**The Chairman:** They are really dealing with the overlapping of fiscal periods.

**Mr. Thompson:** Yes.

**The Chairman:** Are there any other questions, or is the committee ready to agree that we report the bill without amendment?

**Hon. Senators:** Agreed.

**The Chairman:** Thank you very much, Mr. Thompson. We appreciate the course of lectures and higher mathematics which you gave us this morning.

The committee adjourned.

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada.



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA  
PROCEEDINGS  
OF THE  
STANDING SENATE COMMITTEE ON  
**BANKING, TRADE AND COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

---

Issue No. 3

---

WEDNESDAY, JUNE 14, 1972

---

Record of an organization meeting convened to consider the procedure to be adopted by the Committee with respect to the matters referred to in the Order of Reference of May 16, 1972.

---

APPENDIX: "Comparison of May 8, 1972 Budget Proposals and Recommendations of Standing Senate Committee on Banking, Trade and Commerce".



The Chairman: Instead of using these calculations, would it not be more practical to take the result of these calculations and then take a percentage figure?

Mr. Thompson: Part of the difficulty with certain Mr. Chairman, is that they may not occur at the same time as the relevant one. The other suggestion was considered, but this seemed to be the preferable one.

Senator Carter: The \$18.25 figure is what we get back. Instead of \$20, we get \$18.25.

Mr. Thompson: It represents both what one pays the federal government and what one gets back upon distribution.

The Chairman: You get back the effective rate.

Senator Carter: One is going to get it back, anyway. It does not seem to amount to much. One might as well pay 20 per cent and get back \$20 or pay 18.25 per cent and get back \$18.25.

The Chairman: Except that the law entitles you to a refund on capital gains tax and it is limited to 1 per cent. You have to reflect that in connection with the 20 per cent, and that requires a calculation.

I am sure there would be a good deal of yelling if you said, "Well, let me straighten this out and recommend that you pay \$20 and get us \$20 back."

Senator Flynn: I suppose the problem is that all of this is done by computer.

Senator Flynn: Computers will check all the returns.

The Chairman: Yes.

Senator Flynn: You do not like me to exaggerate the importance of computers in your department. I can understand that, but in fact that is the case.

Mr. Thompson: The Department of National Revenue uses computers to some extent.

Senator Flynn: No objection is that if the computer fails to supply a document which the government is using a long time before it is needed.

Senator Flynn: It is a question which must be about programming computers. I suppose that is the case.

The Chairman: We have dealt with the two consequential changes.

Senator Carter: Before we go on, Mr. Chairman, may I just make sure that I have this straight? The \$100 is cut down to \$50 because only half of a capital gain is taxable, and you then take 40 per cent of that, which is \$20, and the refund is calculated by taking 91.25 per cent of \$20, instead of going through all of the mathematical calculations you went through. Is that what you do?

Mr. Thompson: That is right. The refund is 91.25 per cent of the \$20.

Senator Carter: And the \$20 is the net amount, once the federal share and the provincial share are taken out?

Mr. Thompson: Yes.

The Chairman: The only two clauses left are the transitional ones, and I think they speak for themselves. The transitional clauses provide a legal basis, technically, for giving these benefits which are given in 1972—in other words, to enable them to apply right through the period that we are dealing with which includes 1971.

These clauses provide that transitional authority, do they not, Mr. Thompson?

Mr. Thompson: That is right, to pro rate the time period according to the way the fiscal year overlaps January 1, 1972.

The Chairman: They are really dealing with the overlapping of fiscal periods.

Mr. Thompson: Yes.

The Chairman: Are there any other questions, or is the committee ready to agree that we report the bill without amendment?

Hon. Senators: Agreed.

The Chairman: Thank you very much, Mr. Thompson. We appreciate the course of lectures and higher mathematics which you gave us this morning.

The committee adjourns.

Printed and published authority of the Senate by the Queen's Printer for Canada

Published under the name of the Senate, Ottawa, Canada



FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING SENATE COMMITTEE ON**  
**BANKING, TRADE AND COMMERCE**

The Honourable **SALTER A. HAYDEN**, *Chairman*

---

**Issue No. 3**

---

**WEDNESDAY, JUNE 14, 1972**

---

Record of an organization meeting convened to consider the procedure to be adopted by the Committee with respect to the matters referred to in the Order of Reference of May 16, 1972.

---

---

**APPENDIX: "Comparison of May 8, 1972 Budget Proposals and Recommendations of Standing Senate Committee on Banking, Trade and Commerce".**





THE STANDING SENATE COMMITTEE ON  
BANKING, TRADE AND COMMERCE

The Honourable Salter A. Hayden, *Chairman*

The Honourable Senators:

Aird	Hayden
Beaubien	Hays
Benidickson	Isnor
Blois	Lang
Bourget	Langlois
Burchill	Macnaughton
Carter	*Martin
Choquette	Molgat
Connolly ( <i>Ottawa West</i> )	Molson
Cook	Smith
Croll	Sullivan
Desruisseaux	Walker
Everett	Welch
*Flynn	White—(29)
Gélinas	
Grosart	
Haig	

\**Ex officio* members

30 Members (Quorum 7)

Record of an organization meeting convened to consider the procedure to be adopted by the Committee with respect to the matters referred to in the Order of Reference of May 16, 1973.

APPENDIX: "Comparison of May 8, 1973 Budget Proposals and Recommendations of Standing Senate Committee on Banking, Trade and Commerce."

# Order of Reference and Commerce Evidence

Extract from the Minutes of the Proceedings of the Senate, May 16, 1972:

"With leave of the Senate,

The Honourable Senator Hayden moved, seconded by the Honourable Senator Fournier (*de Lanaudière*):

That the Standing Senate Committee on Banking, Trade and Commerce be authorized to examine and consider any bills based on the Budget Resolutions relating to income tax in advance of the said Bills coming before the Senate; and

That the Committee have power to engage the services of such counsel, staff and technical advisers as may be necessary for the purpose of the said examination.

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative."

Robert Fortier,  
Clerk of the Senate.

With us this morning is Mr. Albert... who was with us when we were dealing with Bill C-259 and also Mr. Charles Mitchell. I was going to suggest that the way in which we might look at this is to consider the recommendations that have been accepted. So far as the recommendations that have been accepted, I think we should look at what the recommendations were and attempt to come to a conclusion as to whether or not we still have the same view towards these recommendations. At this time there is no intention to fault anybody. If the government made its decision to include certain recommendations of the Senate and not to include others, that is their decision. As and when the bill comes to us, it will be our decision whether we accept that or propose any amendments. All we are looking for now is to get an understanding of the scope and extent of the recommendations that we made and that have not so far been incorporated in the bill.

There is one item that has been called to my attention. We made certain recommendations and comments in connection with the departure tax. In his budget speech the minister made the statement that he thought the treatment that was incorporated in Bill C-259 was too harsh, and that he would have a series of amendments to propose.

Senator Beaudry: That is in relation to people leaving the country?

# Minutes of Proceedings of the Committee on Banking, Trade and Commerce

Wednesday, June 14, 1972

The meeting of the Committee on Banking, Trade and Commerce was held on Wednesday, June 14, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman, Mr. Charles Mitchell, presided. The Committee considered the report of the sub-committee on the proposed amendments to the Income Tax Act.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

The Chairman stated that the Committee would be holding a public hearing on the proposed amendments to the Income Tax Act on June 21, 1972, at 10:30 a.m. in the Senate Chamber.

Senator Ouellet: Mr. Chairman, I am a little concerned about the discussion here. First of all, I should like to say that to have the appearance of two lawyers from the chairman's law firm in Toronto, I think we were very fortunate to



# Minutes of Proceedings

Order of Reference

Wednesday, June 14, 1972.

(4)

Pursuant to adjournment and notice the Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m. to consider:

The procedure to be adopted by the Committee with respect to the matters referred to in the Order of Reference of May 16, 1972.

*Present:* The Honourable Senators Hayden (*Chairman*), Beaubien, Benidickson, Blois, Burchill, Carter, Connolly (*Ottawa West*), Cook, Croll, Isnor, Lang, Martin, Molson, Smith and Welch—(15).

*Present, but not of the Committee:* The Honourable Senators McDonald and McIlraith—(2).

*In attendance:* Mr. C. A. Poissant, C.A., of the firm of Thorne, Gunn, Helliwell and Christenson, engaged as Tax Consultant to the Committee and Mr. Charles Mitchell, C.A., of the firm of Thorne, Gunn, Helliwell and Christenson, engaged as Tax Consultant to the Committee.

Upon motion it was *Resolved* that the document entitled "Comparison of May 8, 1972 Budget Proposals and Recommendations of the Standing Senate Committee on Banking, Trade and Commerce" be printed as Appendix to these Proceedings.

Following a lengthy discussion the Committee adjourned at 12:40 p.m. to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee*



# The Standing Senate Committee on Banking, Trade and Commerce

## Evidence

Ottawa, Wednesday, June 14, 1972

The Standing Senate Committee on Banking, Trade and Commerce met this day at 9:30 a.m. to consider the procedure to be adopted respecting the Order of Reference of May 16, 1972.

**Senator Salter A. Hayden** (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, you have in the brown envelopes that were distributed all the basic material you need. I should warn you that Proceedings No. 47, of November 4, 1971, containing the preliminary report and recommendations of the Committee, is now out of print, and I believe the copies you have are Xerox ones. If you lose your copy it will be difficult to replace, unless you have somebody else's Xeroxed.

Among the other material that you have is an analysis made of the budget and the proposed amendments. You have a copy of that indicating what the Senate's recommendations were and what the budget proposals were. You should also have a CCH statement, which ties in the resolutions to the bill. You therefore have, I think, all the basic material you need. You also have copies of the committee proceedings of the two appearances that Mr. Benson made before the committee.

With us this morning is Mr. Albert Poissant, who was with us when we were dealing with Bill C-259, and also Mr. Charles Mitchell. I was going to suggest that the way in which we might look at this is to consider the recommendations that have been accepted. So far as the recommendations that are not dealt with are concerned, I think we should look at what our recommendations were and attempt to come to a conclusion as to whether we still have the same view towards those recommendations. At this time there is no intention to fault anybody. If the government made its decisions to include certain recommendations of the Senate and not to include others, that is their decision. As and when the bill comes to us, it will be our decision whether we accept that or propose any amendments. All we are looking for here is to get an understanding of the scope and extent of the recommendations that we made and that have not so far been incorporated in the bill.

There is one item that has been called to my attention. We made certain recommendations and comments in connection with the departure tax. In his budget speech the minister made the statement that he thought the treatment that was incorporated in Bill C-259 was too harsh, and that he would have a series of amendments to propose.

**Senator Beaubien:** That is in relation to people leaving the country?

**The Chairman:** Yes. What they will be we do not know. All we know is what we suggested. Therefore, it will be difficult to make any comment on that. We will have to wait until those amendments are proposed. There may be a number of those instances.

**Senator Croll:** Mr. Chairman, I would like to make a few preliminary observations. From your outline of the course of action you propose, it is my view that the purpose is to bring pressure to bear on the government for special consideration for a small group which the government did not deal with in the last budget speech. As I said in the house, special pleading on behalf of special interests who seek special privileges leaves a greater tax burden on the rest of the taxpayers, and more particularly on those Canadians 25 per cent of whom are existing on less than \$5,000 a year.

In addition to that, I consider it highly improper and unethical for two members of the chairman's law firm to appear before a Committee as experts, to be anointed with the mantle of the prestige of the committee and the advantages that can flow from that. For that reason I object to the procedure taken, until such time as the bills come before us for examination.

**The Chairman:** Senator Croll, one of the comments you have made would appear to be a reflection on me. I take it you intended that.

**Senator Croll:** I have said what I had to say. It is there. I made it clear, and I wrote it out in order that I might not be mistaken in what I said.

**The Chairman:** If I might answer what you said, first, would you care to tell us who the "small group" is that you are referring to as looking for special privileges?

**Senator Croll:** Those people on whose behalf you spoke the other day in the Senate, saying that these and these matters had not been given consideration, or had not been accepted by the government.

**The Chairman:** You call it "a small group." The evidence we had in relation to that group was that there were about 50,000 people in it. I do not know whether, in your estimation, that is a small group or not. In mine that is a large group.

**Senator Connolly:** Mr. Chairman, I am a little concerned about the discussion here. First of all, I should like to say this to Senator Croll. In connection with the appearance of two lawyers from the chairman's law firm in Toronto, I think we were very fortunate to



have experts come and advise us on the bill. As it happened, these men had done the work that they did before our committee with a great many legal organizations—the Canadian Bar Association, the Upper Canada Law Society and others, and no doubt at meetings in the private sector and the industrial sector of the country which are considering the tax bill.

They happened to be from the chairman's office, but I do not think that made a particle of difference so far as we were concerned. They were explaining the bill and they were experts.

**The Chairman:** Plus this, that they were invited by the committee.

**Senator Connolly:** Whether they were invited by the committee or not did not matter too much to me. Of course, they would have to be invited by the committee. The fact is that they came here and did this work, without charge—except, I gather, for their expenses, and I am not sure of that—and I think the committee benefited tremendously from that.

That is just one small point, and I am sure Senator Croll will probably come to the same conclusion that I have reached. I have no interest one way or other in regard to this bill. I want to make sure we get good legislation. I think this is the motive which activates all of the members of the committee.

On the general point of "special interest," I do not suppose that anybody who is a taxpayer can be excluded from the class of having a special interest. I am conscious, and I think we are all conscious in this committee, of the fact that, because members are leaders in the industrial community, the business community and the professional community here and there, there is always overhanging us the possibility of a charge that we have a special interest.

Perhaps it is useful that Senator Croll has raised the point. When there is nothing else to write about on Parliament Hill, the press corps will write about this committee and "the special interests" that it has. I think there is a value to this committee, to the public at large, and certainly to the economy, in having people with the know-how and experience that the people on this committee have. They introduced a business point of view, which is a very important point of view, because it is the private sector that has its neck on the fence in connection with the growth and development of the economy. If we have people here who can make a contribution that will indicate what can make the economy work better, I think we are doing something for the benefit of the country.

As I say, I personally do not think I have ever found myself in conflict, despite the fact that I have some professional connections. Even if there is a possibility of conflict, I think the members of this committee have been able, and I think they are able, to segregate their personal and professional and business interests from the interests of the country.

I think this committee has performed well; I think it has done a service to the Senate and to the country.

**Senator Beaubien:** Mr. Chairman, last year when we had Bill C-259 before the committee, we came to the conclusion that there were about eight amendments that we would have put into the bill. We would have amended the bill in eight different cases, if we had

had the time. We came to the conclusion that if we put in the amendments, that would not give the time to the House of Commons to deal with them and return them to us in time to pass them before the end of the year. The Senate was convinced that, unless the measure was passed before the end of the year, it would create a hardship for the people of the country because they would not know where they stood when facing 1972.

Therefore, we told the Minister of Finance that we wanted him to consider these eight amendments. He did not say he was going to put the eight through, or which he would put through or which he would not. What he did say was that there would be an amending bill. The Senate accepted that, because the Senate said that if there is an amending bill we could put them in, if they have to be put in, if they are not put in by the government.

That is how it stands, and that is what we are here for. Could someone run over very quickly or quietly the eight amendments, and have Senator Croll tell us where we are acting for special interests? I think it is a most unworthy reflection on the chairman, and I do not think it makes any sense. Therefore, let us go over them and let Senator Croll tell us where we are acting or trying to act for a special interest. There were eight amendments, were there not?

**The Chairman:** They are in the material.

**Senator Beaubien:** If it is eight amendments we are trying to put through, let him tell us where we are doing something under the counter, as it were, for a special interest.

**Senator Cook:** I must say I agree with Senator Beaubien. I think the amendments proposed have as much validity now as they had then. I agree that we felt it would not be proper for us to press the amendments at that time, because of the dire consequences it would have. But we have not at any time abandoned our amendments. We thought they were good then, and we think they are good amendments now. I do not think, frankly, that there is so much confrontation with the government as there might be with some chap in the Department of Finance who is advising the government. I do not think it is any more valid now, and I think it should be smoked out so that we may see where we stand.

There is no question about this, except on this one, if I understand it rightly, the profit-sharing plan which I think is the one which was referred to, is it not? I was convinced at the time that there was an injustice being done to these people and I still feel that way.

**The Chairman:** We can get on with our business, if there is no other comment. All I can say, in so far as what Senator Croll has said is concerned, is that he did not answer my question—in other words, he says the words speak for themselves. I am prepared to leave it at that.

Any time the committee feels that the chairman is showing some interest that he should not, you can easily have another chairman take over the functions. That is up to the committee to decide. Any moment when you feel that in anything that I do there is any effort to support a special interest, you can raise the issue, if I do not raise it myself.



**Senator Connolly:** That last remark is a key one; because it is up to the individuals on this committee to decide whether or not they have a special interest that prevents them from participating.

**The Chairman:** As far as I am aware, in all the consideration we have given to the tax legislation, I have been concerned only about one thing, that is, that we understood what the proposals were, that we heard the objections of the people and that, too the extent we thought there was merit in the objections the committee dealt with them.

**Senator Benidickson:** Plus the fact that you did not want to be under closure in the final study.

**Senator Croll:** In the last session, Senator Benidickson means.

**Senator Molson:** I think the point that Senator Beaubien and Senator Cook made about our method of dealing with this is valid. I remember very well that I personally asked the minister for an assurance about some amendments, and we were given the assurance that amendments would be made to a number of things. It is perfectly true that he did not promise to bring into effect all the changes that we proposed. He promised to give them full study and, where the government agreed, to bring in the amendments. We discussed as to when we would get the amendments. I for one, and I think probably 75 per cent of this committee, only agreed to the passage of the bill then because of these assurances which we got from the minister.

**Senator Benidickson:** That was on that very important December night.

**Senator Molson:** Then we had further assurances from the government. The Honourable Mr. Turner, the new Minister of Finance, has since made statements which govern the situation, saying, in effect, that the matter in the income tax bill which worried us was certainly of concern to the government, was certainly going to be considered and that we would probably, or perhaps, get amendments if the government still agreed with his thinking.

I would like to read one statement made by Mr. Benson when he attended the meeting of this committee on December 13, 1971, at page 51:31, of our proceedings. This was with respect to a question that these problems were somewhat immediate. I am paraphrasing the minister's statement, but he had said that with regard to most of the problems they are not immediate. I remarked, "That is a little different. They are immediate problems to us, perhaps."

Then he said:

Perhaps they are, but they do not affect one's taxation liability immediately. I am thinking of problems connected with international income. There are other things that will have to be changed as of January 1. For instance, there will be one change with regard to deferred profit-sharing plans, as well as others.

The whole context of these meetings of the committee was that the bill was imperfect as it then was, but that passage was of vital importance in order that we could start 1972 with some assurance of a pattern in order that forms could be issued to enable employers

to make deductions from employees and other administrative procedures commenced. There was, however, this firm governmental undertaking that the problems which we had raised—here I disagree with my friend Senator Croll and state that they were not related to special groups—would be given full consideration. In some cases those problems may have related to relatively small groups. In others they related to relatively large groups, but as far as we were concerned the consideration was the principle of taxation contained in the act, rather than a group.

Our proceedings indicate that a great deal of our time was spent in concern for the largest number of people, those in the lower income brackets whose taxes were reduced, or those who were removed from the taxation roles because of the increased exemptions. In my opinion, this committee did not spend its time worrying with respect to a small group of their friends, and I do not think we are doing that today. We are now proceeding with the study we indicated we would carry out, which was considered by the government, with the Minister of Finance as spokesman, to be a logical procedure to follow in the new year. The only unfortunate aspect is that we are getting down to it far too late, because of the delays which have taken place.

**The Chairman:** If there is no other comment, shall we proceed with the business of the meeting?

**Senator Connolly:** In view of the fact that Senator Molson has referred to the minister's evidence of December 13, I would point out that he returned on December 20 and at pages 52:09 and following of the proceedings spoke in a similar manner to his statements of December 13. This reference completes the picture.

**Senator Benidickson:** Mr. Chairman, I would never have thought that my colleagues would express here or even feel self interest. That is to the credit of the Senate. On the other hand, I had studied these areas as a colleague, in the other place, of Senator Croll. I believe we share an ambition that the Senate will never be charged with self interest. Senator Croll and I have discussed one or two of these possibilities.

May I say that the young and most competent advisers who were provided by the chairman for the assistance of the committee impressed me tremendously. I am rusty in the law, but I thought they explained matters in an "A, B, C" fashion very well. There are other possibilities, but I do not quite share Senator Croll's view in that regard. It was, however, an interesting view. I remain grateful to the chairman for making these advisers available, although he could not have them compensated. I remain grateful to our former Senator Lazarus Phillips for devoting hours and days of work to our deliberations because of his regard for the Senate.

I believe that the chairman's motion to review an assessment of amendments accepted and not accepted is appropriate.

**The Chairman:** I would like to make one comment. I consider Senator Croll's statement a reflection on the chairman, that he has attempted to promote special interests, and I resent it. It is not true. I challenge my friend to establish anywhere in the record that I took any such part. My position before this committee when Mr. Benson was here, and even before his appearance, was that as long as we received an assurance that there would be an amending bill it was good enough.



**Hon. Senators:** Agreed.

**The Chairman:** If he wished to say that some recommendations were good enough, fine; that some he would consider, fine. But our position was that as long as we would receive an amending bill we could apply some of our thoughts to it. All we want is the opportunity to do it. If that is promotion, then it is a peculiar interpretation of "promotion." The motion which I made the other day was to refer the proposed amendments in relation to income tax to this committee to examine and report. If because I illustrated one of the points on which we made a recommendation, and on which the minister, in his budget speech, made some comment indicating that there will be further consideration in a grouping of deferred profit-sharing plans, pension plans and retirement savings plans—

**Senator Benidickson:** I watched very carefully, and you added many items deserving our attention.

**The Chairman:** I just wish to finish what I was saying. This is not the first time that Senator Croll has made statements of this kind. It is fortunate, from his point of view, that the press is here. Any allegation of special interest is bound to be picked up. Whether I am inferring that that was his intention, he can draw his own conclusion. If he is drawing lines in his criticism of the chair, then I am ready to have him draw lines here, in the Senate or in any other place; except that when statements are made, they should be supported, because they will be reported in the press as statements without any search or consideration. Any time that this committee needs help in the consideration of a bill, if I am in a position to provide it, and the committee wants it, I am prepared to provide it. Honourable senators can read every word that was said by these people who were from my office, and they will not find the promotion of any point of view. They will find clearly an explanation of the intent and purposes of the bill, with demonstrations on the blackboard.

**Senator Cook:** With pros and cons.

**The Chairman:** Yes. If that is promoting special interests, then Senator Croll must have his own interpretation of "special interests".

We have with us Mr. Poissant. Subject to what the committee may say, I was going to ask him to open the proceedings by dealing with recommendations which we made in our several reports, and how they were dealt with; firstly, the recommendations which we made and which have been accepted in the form which we recommended, and whether there have been any variations.

If it is acceptable to the committee, I would ask Mr. Poissant or Mr. Mitchell to deal with that. I think that honourable senators will be able to follow it quite easily if they keep before them the memorandum which analyzes the headings.

**Senator Isnor:** Mr. Chairman, I am greatly concerned with what has happened here this morning, particularly in view of the reporting of the proceedings up to the present time. I was wondering whether we should take action to suppress the minutes up to this point.

**Senator Beaubien:** I would like to second that.

**The Chairman:** What was the motion?

**Senator Carter:** To suppress the minutes up to this point.

**The Chairman:** The press is here. We cannot very well tell them to suppress it.

**Senator Isnor:** It is not so much the press report, but the report of the committee's proceedings.

**The Chairman:** As far as the chairman is concerned, there is a *Hansard* report and it should stand. I may want to refer to it at some time.

**Senator Isnor:** That is carrying it too far.

**The Chairman:** I would prefer to have it, and not have any suppression or alteration of any sort.

**Senator Connolly:** There is no representative of the press here.

**Senator Carter:** The press is not represented here.

**Senator Molson:** It was earlier.

**The Chairman:** There is a *Hansard* report. Our proceedings have been taken down, and I think they should stand.

**Senator Beaubien:** Mr. Chairman, I think we have to consider very carefully what you want. I do not think the committee should go against your wishes. In a way, I think it would be better if the proceedings were not recorded, but that is my own private opinion.

**Senator Molson:** I would be frightened to do that. I do not think we want to start suppressing things. I believe it is better to let the record stand. I think it would be misunderstood if we suppressed it.

**The Chairman:** It might provide an opportunity for more comment.

**Senator Molson:** Yes, or it might turn out to be grossly unfair to you, to Senator Croll or to anybody. We know what has been said, and I think it should stand.

**Senator Isnor:** It would have been better if it had been *in camera*.

**The Chairman:** But we are not sitting *in camera*. You have made your point without putting forward a motion, have you?

**Senator Isnor:** I do not think I made a motion, so we will let it go at that.

**The Chairman:** All right. It is a matter of record. Perhaps Mr. Poissant and Mr. Mitchell will now proceed.

**Mr. C. Albert Poissant, Tax Consultant to the Committee:** Mr. Chairman and honourable senators, I would say that the summary which was prepared and which you have in front of you is very



complete. It shows the recommendations that the committee made and what is coming out of the budget proposals. Perhaps, before we start, I should refer to the priorities which appear on page 51:8. They are the nine priorities which were mentioned by Senator Beaubien earlier this morning. The first one is Gifts, Bequests and Devises to Charities.

**Senator Connolly:** You have lost us.

**The Chairman:** It is on page 51:8.

**Mr. Poissant:** The committee will want to have in mind the priorities mentioned. The first one is Gifts, Bequests and Devises to Charities. The second is Employees Profit Sharing Plans. The third is Deferred Profit Sharing Plans. The fourth is Passive Income. The fifth is *De Minimis* Rule. The sixth is Tax-Exempt Non-resident Investors. The seventh is Non-Resident owned Investment Corporations. The eighth is Private General Insurance Corporations; and finally, Deemed Realization on Ceasing to be a Resident of Canada.

If we go back to the summary, you will notice that passive income was one of the nine priorities of your committee. Passive income, and *de minimis* rule have to do with foreign control property income. We could say that the proposal recommends the deferral of the application for two years.

**The Chairman:** That is the budget proposal.

**Mr. Poissant:** That is the budget proposal. The committee had asked for a one-year deferral, if you read (d) on page 1:

The effective date of implementation of the passive income rules be deferred one year.

The minister in his proposals suggested that he will defer it by two years, giving the government sufficient time to study the implication of this passive foreign property income.

**The Chairman:** And give the opportunity to introduce rules for tax on passive income.

**Senator Connolly:** In other words, on this one our point was not only accepted but was given "200" per cent implementation.

**The Chairman:** On that, yes.

**Mr. Poissant:** If you will permit me, Mr. Chairman, there was a seminar held at the University of Montreal by the International Fiscal Association, the main subject of which was passive income. Most of the speakers at the seminar held that a deferral of two years was good but was not really giving those corporations that were in the process of going into foreign countries the opportunity of knowing what will be the legal situation two years from now. I might say that these were "cream" speakers from Canada, tax experts, and all of them were of about the same opinion, that the government should as soon as possible let the public know what will be its final intention, because a deferral of two years is good but it does not let the Canadian taxpayers know what their final situation would be. I make this passing comment, Mr. Chairman, so that the committee will know what steps to take in its final decision.

**Senator Burchill:** Our recommendation was two years?

**The Chairman:** We suggested one year.

**Mr. Poissant:** One year was one of the recommendations of your committee, made in the absence of definite amendments; that it should be deferred at least one year. In some cases that still does not solve the problem. The problems of yesterday still remain; they are not completely solved, except that some companies might gain the benefit by having this additional two years. All in all, unless the clear governmental policy is known, corporations like those who were here, such as Alcan and Massey-Ferguson, are still in the position that they do not know where they are going.

**Senator Cook:** All they have done is defer attacking the problem for two years.

**Mr. Poissant:** That is right.

**Senator Cook:** But they have given consideration to the amendments that we suggested before, which are perfectly valid for us to suggest again.

**The Chairman:** The minister in his budget speech did say that they were looking at the matter, and that there would be the introduction of rules. He has not indicated in what direction they will be going. If you want to see what Mr. Benson said on this subject, you will find it in volume 51 at page 26, starting at the bottom of the page, where he said:

We are looking at the passive income section. It has been misinterpreted to some degree by the public, in that the definition is fairly broad and it allows such things as interest on receivables and normal amounts that a corporation would receive in their business operations as being non-passive income.

Then I interjected to say to the minister:

The one thing that bothers me about that, Mr. Minister, is that there is a good deal of jurisprudence which has been developed over the years as to what is income from a business and what is income from property; and, unfortunately, we have many cases which say that rental income is income from property.

If we are going to have conflicts, we feel there should be some clarification so as to be sure that active business should not exclude income from property. As to the ramifications of that, I cannot tell you at the moment.

Then Mr. Benson said:

This is what we have been looking at, but our view was that we should make the definition as broad as possible so that the normal business operations would not be subject to the passive income rules.

When we started looking at this we felt that if we further confined it it would make the jurisprudence more confining than we want it to be. We are trying to determine how we can best do this.

So the minister appreciated the problem and the jurisprudence as to the distinction between income from business and income from property. Under the passive rules in the form in which they were in the bill before us, income from property was going to be passive income, and it would be subject to full rates of income tax. It would



not constitute carrying on an active business in order that dividends, for instance, might be brought home and then be subject to corporate tax. There was quite a lengthy discussion by the minister. The jurisprudence was very clear. I had a bushel and a peck of it before me in cases, which I showed to the minister. Now they are looking at it.

When we get into international relationships and the benefit of them to Canada, I am sure they would not come under the heading, in any sense, of small groups and special interests. In the case of Alcan and Massey-Ferguson, they are tremendous employers in Canada, and we had evidence from them as to the thousands upon thousands of employees. A lot of this employment turns on the export market which they have in their international relations. The minister realized the problem, and all the present minister has said is, "We are going into it to decide to what extent the rules should be spelled out."

**Senator Connolly:** Could Mr. Poissant tell us whether or not the group he heard discuss this matter had made representations to the department or to the government in connection with the wisdom of having the rules established very soon?

**The Chairman:** My understanding is that even before Alcan and Massey-Ferguson came before us they had made representations and lengthy representations. I would conclude from the information I have heard, which admittedly is hearsay, that they have been continuously at the job since then, so as to point out what the problems are and give any assistance they can in proper drafting. If there are no further questions on that, what is the next item Mr. Poissant?

**Mr. Poissant:** Dividends received from foreign affiliates: all dividends received by Canadian corporations from foreign affiliates should be exempt from tax regardless of whether the affiliate is located in a treaty country or not.

**The Chairman:** Would you amplify that a little?

**Mr. Poissant:** There is a distinction between a tax treaty country and a dividend received from a non-tax treaty country. Your committee felt that both should be treated equally, because it was not fair for a Canadian corporation to go into a country where the Canadian government was not able to negotiate a tax treaty with that country, and be penalized because of this. Therefore, Canadian corporations invited by the Canadian government to go abroad to help, especially the non-developed countries, should not be penalized if finally the government was unable to settle a protocol or tax convention with that country.

**The Chairman:** You are talking about the difference in rate.

**Mr. Poissant:** There is a difference of rate. One would be according to the tax treaty in this country and the other would be taxable at the full rate. The rate is to be 15 per cent until 1976, and after that it will be 25 per cent, again unless there is a treaty with that country.

**The Chairman:** If there is a treaty the rate will be less.

**Mr. Poissant:** It will be according to the treaty.

**The Chairman:** Which you would assume would be less?

**Mr. Poissant:** Yes.

**Senator Cook:** That question is still open. They made no comment.

**The Chairman:** That is right.

**Senator Molson:** On both this item and the first one the concern really is to put Canadian corporations on the same footing as their international competitors. Is that right, Mr. Chairman?

**The Chairman:** That is right.

**Senator Molson:** I think the matters have been given increased importance in view of the American initiatives with DISC and these other programs.

**The Chairman:** Their DISC program.

**Senator Molson:** And the other program they have in view.

**The Chairman:** Where they have special legislation deferring up to 50 per cent of tax on exporting companies who come within the category of DISC corporations. This would simply enable the Canadian exporter in the international market to be, I will not say on an equal footing but closer to an equal footing, in competition.

**Senator Connolly:** The thinking behind our view was that in order to be continued the Canadian corporation would be paying tax in the country where they were doing business and the dividends would be paid out of the taxpayers' money.

**The Chairman:** Yes. There would be a tax in the foreign jurisdiction and then the dividends would be taxable in the hands of the Canadian parent of this foreign affiliate; so the condition would be worsened.

**Senator Carter:** With regard to these amendments, particularly the first one, where it is a two-year deferral, how much notice should be given, what is a reasonable amount of notice that a company should have in a case like that? If this one is deferred to 1975, should the public not know by 1974 just what the situation is, or is that too long notice?

**The Chairman:** Obviously, it would be good public relations, but there is a deferral now, which the public would know, until this date which is mentioned. Presumably the public who are interested will have the opportunity of dealing with any proposed rules to govern this kind of income.

It has been the practice of the department to consult industry affected, not as to particular rates but on the general theory of how their position would be affected. I would say that we are more conscious now than ever of how the Canadian position of companies operating abroad is going to be affected by Canadian taxation, because the threat of special treatment to American competitors of Canadian companies which are operating abroad is even greater now.



**Senator Carter:** Unless they had a year's notice, it could seriously interfere with their forward planning. They would want to know what they are heading into. Otherwise, they would have to plan right up to the last moment.

**The Chairman:** I would think that the government would be conscious of that.

**Senator Cook:** They would probably make their plans, assuming that the worst is going to take place.

**Mr. Charles B. Mitchell, Tax Consultant to the Committee:** Mr. Chairman, if I may interject, I think that last year representations were made to Alcan that amendments would be introduced to these provisions in about May of this year, this spring. At that time the provisions were supposed to take effect in 1973. They said that if the provisions were being amended in the spring of this year, they would need another year in which to do some house cleaning, so I take it they would say they needed two years.

**The Chairman:** The next item, Mr. Poissant.

**Mr. Poissant:** We are on page 2. The Senate recommendation was:

### 3. Farmers

(a) Provision be made for the continued recognition of a farmer's "basic herd" as a capital asset.

(b) Permit a rollover of farm land and any other capital property used by an individual in a farming activity (no deemed disposition at death).

There was no comment in the budget at all in respect of that. You will recall that this was not one of the priorities.

**Senator Burchill:** Was there any comment in the House of Commons on that point?

**Senator Beaubien:** The basic herd?

**Senator Croll:** They discussed it.

**The Chairman:** They discussed it. That was when the original bill was in the House of Commons.

**Senator Burchill:** Later on?

**Mr. Poissant:** At budget time?

**Senator Croll:** The original discussion.

**Mr. Poissant:** There was no discussion, as I recall, at the time the budget was tabled.

**Senator Cook:** I think Senator Hays had a very colourful remark about that. I do not remember it now.

**The Chairman:** He was very concerned at this being brought forward. We heard some of the farming groups and agricultural associations. We did feel fairly strongly about rollover, where the farm has passed down in the family and it is still used for farming

purposes. We thought there should be a deferral of any tax in that period. There has been no comment on it, so I think this committee at some stage, when the bill comes before us, will have to decide whether or not it is going to press this point further. It is not a decision we need to make at this time.

**Senator Molson:** Was there no reference to farmland rollover income in Mr. Turner's speech?

**The Chairman:** You mean, in the budget?

**Senator Molson:** Yes.

**The Chairman:** No.

**Senator Molson:** I do not know why.

**Mr. Poissant:** There is one rollover.

**Senator Connolly:** When we talk about "rollover," we mean a disposition from father to son.

Mr. Chairman, this is a matter that we will discuss when the bill comes before us?

**The Chairman:** That is right.

**Senator Connolly:** Then we can find out whether or not there is any consideration being given to this.

**Senator Cook:** If I am right, the minister turned that down flat.

**Senator Beaubien:** That is my recollection, too.

**Mr. Poissant:** There is no mention whatever.

**Senator Cook:** No, but did not the minister flatly reject this before us?

**Mr. Poissant:** If I recall, yes. He said he did not see any need to carry this basic herd provision. On the point of rollover, it was mentioned, but I do not recall exactly what he said.

**The Chairman:** He turned down the basic herd proposal; and as to the other aspect, he said he was going to look at it.

**Senator Cook:** Shall we say, he was unsympathetic to the basic herd.

**The Chairman:** The next item, Mr. Poissant.

**Mr. Poissant:** It is also on page 2. The Senate recommendations were:

### 4. Employees Profit Sharing Plans

(a) Permit a rollover of property distributed in specie by the trustee of an employee's profit sharing plan to a retiring member.

(b) Do not tax the employee until he ultimately disposes of such property, at which time any gain should be given capital gains treatment.



You will notice that the Senate recommendations were adopted in full, by resolution No. 13, if you wish to make a note of that.

**Senator Isnor:** No. 4 applied to only one company, did it not?

**The Chairman:** No. 4 deals with profit-sharing plans. There are two types of plans, profit-sharing plans and deferred profit-sharing plans. We had a number of companies in here on the profit-sharing plans.

**Senator Connolly:** Senator Isnor asked whether No. 4 applied to only one company?

**Senator Croll:** He was thinking of No. 5.

**Senator Connolly:** There are many companies that have employees' profit-sharing plans.

**The Chairman:** As far as I know, in connection with No. 5, there were—

**Senator Isnor:** I am talking about No. 4.

**The Chairman:** A number of companies appeared in connection with item 4. Our recommendations have been fully implemented.

**Senator Isnor:** I thought only one company issued shares to employees.

**The Chairman:** No. You may have Dofasco in mind.

**Senator Isnor:** No.

**The Chairman:** Simpsons-Sears appeared in connection with item 5.

**Mr. Poissant:** Mr. Chairman, in answer to the senator's question, employees' profit-sharing plans are of very wide application in Canada, although only one company may have referred to it before the committee.

#### 5. Deferred Profit Sharing Plans

- (a) Averaging provisions are inadequate.
- (b) Amounts distributed to a retiring employee should be accorded capital gains treatment to the extent that they include capital gains realized by the trust.
- (c) Property distributed in specie to an employee should be permitted a rollover.
- (d) The employee should not be taxed until he ultimately disposes of the property, at which time any gain should be accorded capital gains treatment.

The remarks made with respect to these paragraphs are as follows:

- (a) Government sees no reason for not treating these plans in the same manner as pension plans and registered retirement savings plans.
- (b) Government to conduct a general review of the taxation of retirement income plans, including deferred profit sharing plans.

(c) Amounts in a deferred profit sharing plan to the credit of an employee as of January 1st, 1972 (as opposed to amounts vested) are to be eligible for averaging under the old section 36 rules.

That should read "section 36 of the act".

**Senator Isnor:** Did some of us not express preference for that over the old section?

**The Chairman:** No. Our recommendations in connection with deferred profit-sharing plans were to the effect that the averaging to which they were entitled under section 36 of the old act should be continued. They were more generous than the general averaging provisions contained in the bill. The alternative contained in the bill was the limited time allowed to opt for the old section 36 averaging. That simply meant that when a lump sum payment was made from a profit-sharing plan to an employee it was all income. There was no distinction made between capital gain and income. The marginal rate of the taxpayer was to be the average of his rate in the three years before he received the lump sum payment.

The general averaging provisions contained in the bill that we considered were on a five-year basis to establish the marginal rate. The other so-called benefit contained in the bill to the deferred profit-sharing employee was that he could invest in a forward-averaging annuity and simply receive payments of the annuity portion each year as income in his hands. The objections made to us in evidence were that these employees had entered the plans in order to receive a lump sum payment ultimately. They did not desire an annuity, and had they known this would be the case would not have entered this type of plan. It was also recommended that capital gains should receive capital gains treatment. The budget did accord capital gains treatment to such gains for profit-sharing plans but not for deferred profit-sharing plans.

The other point was that the bill gave members of such plans until January 1, 1972 to take the benefit of averaging under section 36 of the old act. However, taking advantage of that lost him the other averaging benefits. We felt that all averaging benefits should remain and recommended that capital gain should be treated as a capital gain. We have introduced capital gain as a form of income for which the taxpayer is accountable and provided a separate rate.

**Senator Cook:** Is it capital gains when realized by employees?

**The Chairman:** There are two instances in which capital gains are deferred. One is in the fund as the trustee administers it. The other is in the accumulation which ultimately is paid to each employee on the basis that he is entitled to it. This would contain elements of both income and capital gain. We recommended that the capital gain element should bear capital gains tax and that the income element should receive income tax treatment. The bill provided for everything to be deemed income, with no distinction for capital gain.

There arise such cases as where trustees, instead of distributing cash to an employee, will distribute his percentage interest in shares or securities held by the fund. We adopted the position that the capital gain element in that distribution should be taxed only at capital gains rates. Secondly, it should only be taxed when the gain is realized, because that is the general principle of the bill with respect to capital gains treatment.



The minister has not accepted those recommendations, and part of the statement he made in connection with them appears to contain an element of misunderstanding.

**Senator Cook:** It does not really make sense.

**The Chairman:** As to the position of deferred profit-sharing plans, bear in mind that under such a plan the employee uses tax-paid dollars for his contributions. He does not take the exemption benefits such as those for contributions to a profit-sharing plan, a pension plan or retirement savings plan. It is true that when he receives the money he does not pay tax on any part of it. We felt, however, that this was an arrangement made in 1962 between the then Minister of Finance, when section 36, with respect to averaging, was introduced. Employees were to continue with the exemption or deduction of the contribution and to receive special averaging treatment under section 36 when the money was received. All their tax would be paid at that time, when everything would be considered to be income, with no distinction for capital. We thought that in connection with deferred profit-sharing plans the same treatment should be recommended as that for profit-sharing plans.

The minister, Mr. Turner, said in his budget speech on May 8, 1972:

... I am not persuaded at this time that the lump sum payment out of a deferred profit-sharing plan should enjoy any special treatment. It seems to me that payments out of such a plan should be treated in much the same manner as payments out of pension plans and registered retirement savings plans. All three of these types of plans have in common the deferral of income tax on the contributions to and the income of the plan.

The misstatement there is that when an employee under a deferred profit-sharing plan makes an annual contribution to the plan or fund, he makes it with tax-paid dollars, so he does not get a deferral; he pays tax on the money he uses. That was the concession. Apparently we were told, in the arrangement with the Minister of Finance in 1962 when the section 36 averaging was brought in, that it was to lighten the burden on the employee when he was getting payment out. Instead of having his income tax rate in the year in which the money came to him, section 36 said "no", that it would be the average of his marginal rate for the three previous years. That could have been of some benefit to him if his income were going down during that period.

The minister has said there is to be a review. What will come out of that review, we do not know. It may well be that at the time the bill is before us there may be amendments to these provisions. I can see scope for one amendment along this line: that in connection with capital gains treatment, instead of being for the capital gain in the fund, instead of being deferred until it is realized, there might be a deemed realization of the capital gain at the moment the lump sum payment comes out to the employee. Even that would be a substantial concession to the employee, because whatever element of capital gain there was, when the money came out to him it would carry the 50 per cent marginal rate instead of the 100 per cent rate.

Trying to look ahead and to read the crystal ball, which I said last night I was not able to do with any perception, this may be a way of making a distinction between the profit-sharing plan and a deferred profit-sharing plan. The minister, in his budget speech, said

in connection with capital gains in the fund during the period it is operating and capital gains at the end of the road when the payment comes out to the employee, that there is a deferral until the gain is realized. That is the principle which we recommended for a profit-sharing plan. We also recommended it for a deferred profit-sharing plan. However, he has not accepted that.

**Senator Cook:** He says, "a general review of the taxation retirement income plans". Would it be in order for us to suggest that there be an exchange of views with whoever is making this review, or to ask him how the review is getting on? In other words, after these reviews take place and are presented it is much harder to make any progress and get any change.

**The Chairman:** I was explaining the position at the present time. We do not have the bill. We are looking at what we recommended and how far the bill goes in connection with that. This is an item which has not been accepted. We note that, and we have all the evidence on record on which we based our recommendations. If there is a further amendment when the bill comes in, and there might well be because I understand there are representations being made in the department on this subject—because, as I indicated earlier to Senator Croll, we were told in committee that there were at least 50,000 people in these two plans, and witnesses appeared before us. If we take that figure of 50,000 and multiply it by at least two, we have a fair segment of the population which have been saving their money by contributing tax-paid dollars, and the employer has been making his contributions subject to the right to deduct what the statute permits. But as and when the employer's contribution comes out, it is income in the hands of the employee and he pays full marginal rates.

**Senator Connolly:** Did I understand you to say that the employer's contribution to the deferred profit-sharing plan is tax-free for the employer when he makes it?

**The Chairman:** To the extent provided in the statute of an exemption that the employer is entitled to when he contributes to a pension plan, a profit-sharing plan or a deferred profit-sharing plan. There is an exemption to the employer.

**Senator Cook:** But it must be an approved plan.

**The Chairman:** It is income to the employee.

**Senator Cook:** The plan may go on and on, and then there is a sudden change in the ground rules.

**Senator Burchill:** When he receives his payment at the end of the road, are there any restrictions on how he must invest it? Does he have to put it into an annuity?

**The Chairman:** Under the bill for a deferred profit-sharing plan, the employer is offered several choices. He could buy a forward averaging annuity, converting it into an annuity, and, of course, only a portion of it would be payable each year to the employee and the portion would be income in his hands. He would pay less income on that. If he lived long enough he would be paying a substantial amount of tax. But the employees who appeared before the committee said they were attracted to this plan because of the lump sum payments feature, and they were ready to contribute tax-paid dollars in order to get this section 36 deferral at the end of the road.



The bill took away section 36 deferral which they have enjoyed for any period after January 1, 1972. If you claimed it, as you were entitled to up to that period, you did not get the benefit of the general averaging, and the general averaging under the present bill is, I think, reasonably generous. It is your average rate over the previous five years which, depending on how your income has been going, might be substantially less than your income in the year in which you get all the money. However, I do not think there is any more evidence that we need to look for at this time, because we had enough evidence to make a recommendation, and we now have to see what happens.

**Senator Beaubien:** Mr. Poissant, if there is a capital loss in the concept of capital gains, what is the tax treatment?

**Mr. Poissant:** In the fund?

**Senator Beaubien:** Yes.

**Senator Connolly:** Will you repeat the question?

**Senator Beaubien:** What will be the tax treatment if in the plan there is a capital loss?

**Mr. Poissant:** It would be exactly as the chairman said. It would have the same treatment as a capital gain. In other words, instead of getting X thousands of dollars out of the plan, you would get X thousands of dollars less the loss that the fund had. That would be the net income that you would get at the end of the road, which would be subject to normal tax, except for that part of the fund that would have accrued to the credit of an employee at the end of 1971.

The chairman gave the distinction between the deferred profit and the profit-sharing plan. The only minor adjustments that were made were technical amendments. Section 36 will be applicable not only on the amount vested in the employee but on the amount to his credit at the end of December 1971. This is a major and important distinction, because a member could be a contributor to a deferred profit-sharing plan but not be entitled to any amount at the end of December 1971, because of a special provision in the plan, say 10 years of employment and, say, at 35 years of age. As the original Bill C-259 was worded, if that amount was not vested to the employee at the end of December 1971, he would not be entitled to the special election. They have removed that anomaly by a provision deeming that there are no restrictions in the plan. In other words, if there are \$2,000 or \$3,000 to the credit of any employee in a plan at the end of December 1971, he would be entitled to elect under the old section election for that amount.

**The Chairman:** Then there is the other point that under the proposal the present Minister of Finance made, if you take the benefit of this section 36 election you are still entitled to take the benefit of the general averaging on the rest of the income that may come out to you. These two items represent items that we asked for, and these have been granted. A capital gains treatment has not been granted so far.

**Senator Connolly:** It seems to me that there is not a fundamental misunderstanding, but perhaps a key misunderstanding here, I guess not on the part of the minister, because this is a detail and we cannot expect the minister to really appreciate it in the context of a budget; there is a misunderstanding or overlooking on the part

of officials who are dealing with the details of these sections. I think the significant point is the fact that they treat contributions to a deferred profit-sharing plan as deductible, the same as contributions to a pension plan and a profit-sharing plan.

**The Chairman:** In the statement the minister does relate them together, and that is not the way it operates.

**Senator Connolly:** I think this is a basic misunderstanding, which I suppose was by officials in the department perhaps overlooking this very important aspect.

**The Chairman:** The main thrust of the recommendation we made was that the employees in these deferred profit-sharing plans were using for their contributions tax-paid dollars.

**Senator Connolly:** That is it. My own view is that if nothing else happened this portion of our evidence should be referred to the officials for consideration.

**The Chairman:** The next item is No. 6.

**Mr. Poissant:** This is departure tax. This was one of the priorities. Your committee asked:

- (a) Minister should have discretion to grant relief in respect of a departure caused by illness, by the transfer of an employee at the direction of an employer, or by any other deserving reason.
- (b) When a taxpayer ceases to be a resident of Canada he should be deemed to dispose of all his assets at fair market value and should have to pay tax at a fixed rate of say 20% on such gains.
- (c) If the taxpayer elects to defer payment of this tax, he should not be obliged to pay Canadian tax on his world income if he is not in fact resident in Canada in the year of actual realization (as the Act presently provides). Instead the taxpayer should be subject to Canadian tax on taxable capital gains in the same manner as other non-residents (i.e. only on the gains actually realized).

If we stop here, there were some proposals made in resolutions No. 7 and No. 12. I do not know at this stage if this is all the minister had in mind, but at this stage, as stated in the column under Budget Proposals, a Canadian ceasing to be a resident will have the right to treat his non-Canadian property as being Canadian property, and therefore defer the tax payment on that until the gain is actually realized. This is in line with what your committee has asked, because your committee has asked that he should not be taxed on his world income in the year he realizes the property after he ceases to be a resident. Your committee felt this was too harsh, that there is no reason why a non-resident should be taxed on his world income in the year he makes a gain. Now, by using this alternative, I imagine that the Canadian ceasing to be a resident and not paying tax immediately will have the right, when he realizes that gain, to be taxed only on that gain but not on his world income.

**Senator Connolly:** Did you say a Canadian ceasing to be a resident?

**Mr. Poissant:** To be a resident.



**Senator Connolly:** Do you not mean anybody ceasing to be a resident?

**Mr. Poissant:** Of Canada.

**Senator Connolly:** That is right. If he is a foreigner who has been resident in Canada and lives in Canada, your remarks apply to him too, do they?

**Mr. Poissant:** This is ceasing to be a resident. I assume ceasing to be a resident is ceasing to be a Canadian resident. If he were a foreigner and does not become a resident, he would not be subject to any tax whatsoever.

**Senator Connolly:** I may not be following you. Let us say Mr. "X" is a British subject who lives in Canada for two or three years; then he leaves; he has departed. I take it your argument applies to him equally as to a Canadian, myself, for instance, who might want to go and live in the Bahamas. That is the only point I am making at this time.

**Mr. Poissant:** There is another budget proposal in (b), which may be what you are referring to:

Where a person leaves Canada and has not been resident in Canada for more than 36 months over the preceding 10 years, any accrued gains on property which he owned when he entered Canada will not be subject to tax when he leaves.

That is to say, using your example, you have been in Canada only two years, and when you entered Canada you had some property. If you leave the country after two years you will not have been here more than 36 months in the last 10 years and will not be subject to capital gains tax on property that you had when you arrived in Canada. It would seem that the property you acquired after you arrived in Canada might be subject to capital gains tax.

**Senator Carter:** Acquired anywhere or acquired only in Canada?

**Mr. Poissant:** Anywhere. Canadians are taxable on their world income. You will be subject again to the rule applicable in (a), where you could treat those properties as being Canadian taxable property. Say, for example, they are Chrysler Corporation shares which you had when you entered Canada. When you leave two years later you may elect to consider those shares as being Canadian tax property, not being taxed at the time of your departure but taxed only at the time when you realize or dispose of those Chrysler shares. Again, in my view, there might be a problem of collection here.

**The Chairman:** There is a little word in there, "security". Security in those circumstances, so that you gain that status in declaring those assets whenever you have them as being Canadian assets. The net result of that is to defer any capital gains tax which you might otherwise have to pay, on leaving the country. But there is a little question in there, in the regular print—not in fine print—the question of security, that is "subject to provision of satisfactory security". So these recommendations have gone some distance in meeting what we recommended, and I would expect there will be more changes and more relief. This is one of our priority items in the list of eight items.

They have dealt with it in part. The minister in his budget speech has said that he will introduce amendments to change the rules in certain items in certain ways which he indicated. Until we see what they are, we are not really in a position to determine whether ultimately all our recommendations are going to be implemented or not. We will have to wait for the bill.

**Senator Connolly:** Under paragraph (a) of the budget proposals column, the words, towards the end of that paragraph, are "taxable Canadian property". That is a technical term, is it not. I think there is a technical definition of "taxable Canadian property", in section 115, is there not?

**Mr. Mitchell:** That is right.

**Senator Connolly:** I suppose that would include securities of various kinds that a departing Canadian taxpayer, or a departing resident of Canada would hold.

**Mr. Mitchell:** That would generally not include securities of public corporations, shares of public corporations, but would include shares of private corporations.

**Senator Connolly:** Foreign public corporations?

**Mr. Mitchell:** Foreign public corporations would not be taxable under "Canadian property". Neither would shares of Canadian public corporations, but shares of private corporations would be.

**Senator Connolly:** Even if those private corporations were foreign corporations?

**Mr. Mitchell:** That is a technical definition. The term "private corporations" does not include a foreign corporation.

**Senator Connolly:** Under the provisions of the act?

**Mr. Mitchell:** That is right.

**Senator Connolly:** So a Canadian taxpayer leaving Canada, owning shares in a private corporation incorporated outside Canada—

**Mr. Mitchell:** That would not be taxable Canadian property.

**Senator Connolly:** It could not become taxable?

**Mr. Mitchell:** No.

**Senator Carter:** What about real estate?

**Mr. Mitchell:** Real estate in Canada is taxable in Canada.

**Senator Carter:** Not outside?

**Mr. Mitchell:** Not outside.

**The Chairman:** We can go on to the next heading. It is No. 7. This was an item that was No. 1 in our list of priorities.



**Mr. Mitchell:** The reference is to resolution No. 10 and 11 in the budget. The Senate recommendations were:

7. Gifts, Bequests and Devises to Charities

Where capital property is transferred to a charitable organization by way of gift, bequest or devise the taxpayer should be considered to have disposed of the property at its "cost amount".

That was what your committee requested.

The proposal was made in the budget in the following way:

(a) Where property is gifted to a charity and is suitable for actual use in the charity's activity, the donor may elect to value the property at any amount between its cost and its fair market value.

In other words, your committee asked for the cost base to be used and the government proposal is that it could be that, or the fair market value, any amount the taxpayer wants to choose, in between its cost or his cost or the actual fair market value at the time of the donation.

**Senator Beaubien:** A tax-free zone.

**Mr. Poissant:** No, senator, it is not quite that. Let us say that the shares of a company cost you \$10,000 and at the time you want to make the gift the fair market value would be \$20,000. You can pick up either \$10,000 or \$20,000, or a value in between. If you pick up, say, \$15,000, you would be deemed to have realized a gain of \$5,000, in which case the capital gain follows the normal treatment of capital gains, divided by two, and this is the amount which will be added to your income; and if added to at the same time, this is the amount that will be deductible as part of your yearly allowable donation—\$15,000, not \$20,000 as in the example.

**The Chairman:** Mr. Poissant, you remember that what gave rise to this was that we had quite a number of charitable organizations appearing before us, and they thought that the provision in Bill C-259 would shut off many contributions which they were receiving—because of the fact that under Bill C-259, if a person made a contribution in property to a charitable organization and it was within the limits of the exemption that he could make, when he died, if that property had appreciated in value, there was a deemed realization which would be carried back and charged against his estate for capital gains purposes. They said this would shut off giving donations, because a man may be prepared to accept some of those consequences at a time when he is in charge of his own affairs and can control their liquidity, but when he is gone and it goes into his estate you have not the same guidance and direction. They thought the net result would be to change and reduce the character of giving. We had many briefs on that. We made a recommendation—as a matter of fact, it was our No. 1 recommendation in order of priority—and I would say that the budget proposals met that. Would you say so, Mr. Poissant?

**Mr. Poissant:** Yes.

**Senator Carter:** Are there any situations in which it would be an advantage to the donor to choose a figure above the cost?

**Senator Molson:** Yes.

**Mr. Poissant:** Yes. If he had a loss carried forward, for instance, that is a capital loss which he might want to be offset by capital gains, he might want to use this. On the other hand, I would imagine that unless he had another type of income in that year, he would not get too much benefit, because he would have no deduction from this for charitable donations in that year because of the limitation, unless, of course, he has other income. I suppose there might be a situation where it would be to his advantage to use it.

**Mr. Mitchell:** There is also this situation. Take a simple example, if the cost is nothing, your cost base is nothing. If you dispose of it at a fair market value of \$5,000, then it has been disposed of at \$5,000 and the amount you are taxable on is one-half of that amount, \$2,500; but your deduction for charitable donations is \$5,000. So it may be to your advantage to get a \$5,000 deduction for the charitable donation and only include the \$2,500 in income. That would depend on what your income would be in that year.

**Mr. Poissant:** Mr. Chairman, I would like to make a remark here. It seems to me that there will be some restriction in the type of donation allowed this treatment. The resolution contained in the Special Report Number 14, Extra Edition, CCH, May 9, 1972, at page 11, resolution 11, states:

... in the case of any such other donee, as suitable for use by it directly in the course of carrying on its public service functions, ...

This restriction might be very important in the case of a painting, for instance. Would that be used by a charitable organization as suitable for use by it directly in the course of carrying on its public service functions? That is a debatable point.

**The Chairman:** Yes, it is almost as debatable as the interpretation under a bill which may soon be before us as to whether something is of significant value or interest to Canada. It may be of great value to those concerned with it, but not take away or add anything so far as Canada is concerned. It may leave the situation the same as previously with respect to income tax, purchasing power and wages. The interpretation of this, frankly, would bother me if I had to express an opinion as to whether a painting given to a charitable organization could be said to be suitable for actual use in the activity of the charity. I suppose a painting given to a museum would qualify. Otherwise it would have to be sold and the money gifted.

**Senator Molson:** A charge of 25 cents might be made for attendance at a suitable function once a year in order to view the picture in the office.

**The Chairman:** Yes. Auctions are conducted at which contributions are made to charitable organizations and the paintings sold. I would say, therefore, that it is suitable for use in the activity of the charity when it is used for raising money.

**Senator Connolly:** What would be the situation were a painting given to the Canadian National Institute for the Blind?

**The Chairman:** I am not sure that the Braille system goes far enough.



**Senator Connolly:** People could pay to tour the building and incidentally view the painting.

**Senator Lang:** This section has been quite widely abused. I can understand the qualification, and in my opinion it is reasonable.

**The Chairman:** I am not even suggesting in anything I say that I criticize the use of the words "suitable for actual use in the charity's activity."

**Mr. Poissant:** The next item to which I would like to direct a comment appears in the same page, at (b):

Any bequest to a charity will be regarded as having been made in the taxation year in which the taxpayer died, in order to enable the taxpayer to deduct the value of the gift from his income in the year of death (subject to the normal limit on deductible charitable donations).

The normal limit is the 20 per cent. I would like to say, en passant, Mr. Chairman, that perhaps your committee will desire to study the possibility of having the excess charitable donation carried back one year. In the event a taxpayer died early in a taxation year and made such a gift, maybe the 20 per cent charitable donation limit would not be applicable and he would lose that benefit. There would perhaps be nothing wrong in granting him the right to use the excess applied in the previous year.

**Senator Connolly:** What do we do with regard to this point? Do we just note it?

**The Chairman:** We note the point and in any report or recommendation we make to the Senate we should include reference to it. This committee in due course will make a report to the Senate, which may be made before the bill is received and this is a point to which we would direct our attention.

**Mr. Poissant:** Item 8 is Mining and Petroleum (A) Earned Depletion. There were three recommendations made by your committee: (A) Earned Depletion; (B) Accelerated Capital Cost Allowance; and (C) Transfers of Resource Properties.

**The Chairman:** In connection with our priority items, we enumerated nine. In 51-8 we added a paragraph in the following language:

Secondly—An Assurance that further consideration will be given to items recommended in the Senate Reports but not set out in the list of Top Priority Recommendations, more particularly in relation to rollovers (1st Senate Report P. 47-4) Consolidated Returns (1st Senate Report P. 47-15) Mining and Petroleum (1st Senate Report P. 47-10) (2nd Senate Report P. 50-8).

We have now enumerated in the first column of item 8 the points we recommended. Mr. Poissant will go through that and tell us how far there has been acceptance.

**Mr. Poissant:** Out of the three recommendations, only one was changed.

#### 8. Mining and Petroleum (A) Earned Depletion

(a) All Canadian exploration and development expenses should qualify to earn depletion, as should depreciable mine assets (whether new or used), depreciable production equipment and natural gas plants, and expenditures on new buildings and machinery as well as on expanded buildings and machinery. Therefore any expenditure which is required to reduce the profit from which depletion may be deducted should qualify as an eligible expenditure.

(b) The transitional period to convert from automatic depletion to earned depletion should be extended to 1980, or alternatively, companies should be permitted to "bank" eligible expenditures whenever incurred after deducting from such "bank" all depletion previously allowed.

The budget proposal had this to say:

The class of expenditures which earn depletion are to be extended to include all equipment acquired after May 8th, 1972 for the purpose of processing in Canada mineral ores after extraction and up to the prime metal stage. This will include all processing, whether or not related to a new mine or a major expansion, as well as custom processing. All income from such processing operations will be considered as income against which depletion may be claimed and in respect of which the 15 per cent provincial abatement will apply.

**The Chairman:** With respect to this item, which they have recognized, we heard a great deal of evidence regarding restrictions on the operation, for instance, of custom milling; and of a major expansion of your property, as to whether you should be able to write off the cost of that as part of your completion allowances. It was very important to people who made this proposal and generally to the industry. They have accepted this one recommendation. We have to decide what position we are going to take in relation to the items that were not accepted, and wait and see if any further representations will be made to us by the people concerned. We will have another opportunity to consider this when the bill comes to us.

**Mr. Poissant:** "Accelerated Capital Cost Allowance". The recommendations were mainly technical in this area, such as broadening of the definitions of "building", "mining machinery and equipment", "social capital transportation costs", and "major expansion of an existing mine." There was no comment made at all on that proposal. (c) Transfer of Resource Properties.

**Senator Connolly:** With regard to social capital transportation costs, that, I take it, would include sewers, water, and things like that, which are supplied in a remote area where capital development is going on in the mining field; is that so?

**Mr. Poissant:** Yes.

**Senator Connolly:** This is a matter of very serious concern and interest to provincial governments, if a major mining development is occurring in a remote area.

**The Chairman:** This was the burden of all the evidence that we had, that the direction of mining development is extending close to



cities, where there are power installations and everything else. You have to start from scratch and provide all the facilities, such as living quarters—

**Senator Connolly:** Roads, railways, power . . .

**The Chairman:** All the social amenities.

**Senator Connolly:** I was wondering whether the provinces had made representations on this point.

**The Chairman:** Possibly that is one area we should explore. It would not be difficult to do for some provinces.

**Senator Connolly:** We may see it as a real problem. The provinces may see it as a natural problem. They may have to pick up the tab for putting in roads, sewers, water systems, although not for building houses.

**The Chairman:** If our recommendation had been accepted, the effect would have been to reduce the amount of income that would otherwise be taxable—is that correct?

**Mr. Poissant:** That is true.

**The Chairman:** In a sense, that would reduce the income to provinces.

**Mr. Poissant:** What your committee was after was an increase in the depletion base, by adding to the definition. In reply to Senator Connolly . . .

**Senator Connolly:** I did not follow the chairman's comment.

**The Chairman:** I said that if the recommendations that we made had been allowed, there would be an extra benefit from their right to claim depletion in relation to these items. Therefore, there would be less exposure to income tax by there being less taxable income, and that would reflect on the income available to the province.

**Mr. Poissant:** If the province adopted the same definition.

**The Chairman:** Yes. I cannot conceive of the federal authority adopting it and the province, where the development is taking place, not adopting it. The question is: How far does our responsibility go in that regard?

**Senator Connolly:** Another factor is that perhaps the development organization could supply the services much more cheaply and adequately and at much less cost than would be incurred if the provinces had to build the road, and get the power lines in.

**The Chairman:** Do you think that would be the prime factor in the consideration by provinces?

**Senator Connolly:** Yes, because they would not have to commit their own capital.

**The Chairman:** Therefore, they would support what their federal authority proposed. On the other hand, any expansion of that kind creating a city, with public buildings, sewers, water, education and everything else, affords a lot of opportunities to the province, if it has direct control of all that development. Ontario does have an Ontario Development Corporation which can make grants.

**Senator Connolly:** Yes. And they have the general responsibility to develop in underdeveloped areas. Some of these developments have a very definite life cycle. Ore bodies can run out. Then the towns and all the established facilities are conditioned by the life of the mine. Once the mine has been depleted, the town becomes a ghost town. We have seen this happen.

**Mr. Poissant:** This is something that could be covered by regulation rather than by a change in the statute. I have no idea if they are still thinking of changing the regulations without necessarily announcing it in a budget speech. They could do it by changing the regulations rather than by statute.

**Senator Connolly:** Do I understand that if a mine organization goes into a remote area and installs hydro facilities, sewers, water, roads, et cetera, by regulation it might be allowed as a base upon which they can earn depletion?

**Mr. Mitchell:** We are talking about two different things. The regulations may say that it is a regular rate for these items, or that it is an accelerated rate. I believe that a lot of these social services are based on earned depletion.

**Senator Connolly:** You think they are available for earned depletion?

**Mr. Mitchell:** Yes. My mistake; I was looking at the committee report. They do not come under earned depletion.

**Mr. Poissant:** Mr. Chairman, may I say that the Canadian Bar Association and the Canadian Institute of Chartered Accountants presented a brief in March of this year. In this brief they make pretty well the same recommendation as your committee did. Their report says that "building" should include both, a building or other structure. It says that the recent decision in the tax case of *B.C. Forest Products Ltd. versus the Minister of National Revenue* indicates the need for inclusion of the term "structures". When it talks about "mining machinery and equipment" it says that this would not appear to include "access roads" or "on-property railroads," as stated in the summary, or "milling" as distinct from mining assets, or class 10 type of assets such as "mining buildings," et cetera. They recommend that all of these items be considered for inclusion. Finally, they say that the "social capital" includes transportation facilities, and that "transportation facilities" are not truly "social capital" but should more properly be included in item 1 or 2 of their recommendations. This is along the lines of your committee report, to make these definitions more inclusive, or make it clearer so that the taxpayer knows exactly what is included in "building", what is included in "mining machinery and equipment", and finally what is included in "social capital transportation costs". Then we come to (c) "Transfers of Resource Properties":

The transfer of Canadian resource properties between related companies should be permitted to occur without incidence of tax.

There is no comment made.



**Senator Carter:** If I might refer to Senator Connolly's point about the buildings, living quarters and sewers, no company will go into a remote area unless they have proved resources to continue for at least 20 years to amortize their capital. Over that 20-year period they would automatically amortize the social costs, would they not?

**Mr. Poissant:** Except that you have asked, in your report, that this should be in the accelerated capital cost allowance, it should be written off faster. It would normally be written off over a period of years, but the report asks that it be included in the accelerated capital cost allowance, for faster write off.

**Senator Carter:** I was thinking about Senator Connolly's point that ore bodies run out after a certain time. Over a 20- or 30-year period most of these capital costs and other things would have been taken care of automatically.

**Mr. Poissant:** Written off; you are right.

Then we come to No. 9, rollovers:

The rollover provisions should be broadened to include all situations where the underlying ownership remains the same.

The budget proposals had this to say:

Rollovers to be broadened for persons leaving Canada who resided in Canada over a short term only, for distributions of property out of an employee's profit sharing plan, and to perfect the spousal trust exemption in cases where a spousal trust is required to pay death duties.

We referred to this before on the departure tax, and secondly the one on the property out of an employee's profit-sharing plan. The other one was the spousal trust exemptions.

**The Chairman:** I can tell you that rollovers is one of the items included generally in our top priority items. We named nine items, and then we said we wanted assurance and further consideration in relation to a number of other items including rollovers. I do not think we made any specific reference to spousal trust exemption. We said basically that the rollover provisions—that is really the deferral of tax—should be broadened to include all situations where the underlying ownership remains the same. There has been some recognition of that to the extent that we have indicated. Two of these we itemized in our recommendations, and they have been accepted. My recollection is that we did not particularly itemize the spousal trust exemption.

**Mr. Mitchell:** It may possibly have been referred to in the brief that the Law Society submitted to us, but I am not too sure on that point.

**Senator Molson:** There is a reference here to 47-4. In 47-4 I do not see rollovers. As a matter of fact, I do not see 47-4.

**The Chairman:** You mean in the top priority?

**Senator Molson:** I open volume 47 at 47-5, so I am a little puzzled to know where to find 47-4. It is very complicated. There must be a 47-4, because that is the reference.

**Mr. Poissant:** At 47-13 we see "Deferred Recognition of Capital Gains (Rollovers)". It is a wrong reference. It should be 47-13.

**Senator Molson:** I think we should correct that reference on page 8 of volume 51 at the top, in Appendix B, under the last paragraph "Secondly"; it is 47-13.

**The Chairman:** We did concentrate on proof reading, but sometimes Homer nods.

**Senator Molson:** I am not being critical in any way, Mr. Chairman.

**The Chairman:** What is the next item?

**Mr. Poissant:** "Designated Surplus":

The special tax on dividends paid out of designated surplus should be withdrawn.

There is no comment.

**The Chairman:** I suppose our position is that if it remains the same in the bill when it comes to us we will have to consider the evidence we had and decide whether we think there should be an amendment. This item was developed in the submission of the Canadian Bar Association, and of the Canadian Institute of Chartered Accountants on designated surplus at page 7-2 in their brief. The 7 means Part 7 under the heading "Acquisitions, Reorganizations and Rollovers". It might be well, rather than have me read this into the record, the committee would agree to have this printed as part of the record. It is only two paragraphs, about half a page. Then, when the committee comes to read the report, you will have a handy reference and will not have to dig out of the larger volume.

Is that agreed?

**Hon. Senators:** Agreed.

*The relevant paragraphs follows:*

#### *Designated Surplus*

A combination of the substantially re-drafted designated surplus provisions, together with the general requirement that a gain be recognized on the transfer of assets between corporations, will mean that, in general, it will be substantially more difficult, when one company purchases the shares of another, to combine the real businesses of the companies involved.

We believe that any tax which the government feels should be exacted because of the acquisition of one business by another should, in general, be payable at the time of acquisition, and in most cases by the vendor. To ask that substantial additional tax be paid on a combination of the acquired and the acquiring businesses at a later date when such consolidation may be desirable for business reasons is simply to require the business to be continued on a separate basis. We doubt that a tax on designated surplus will raise significant revenues for the government: rather it will merely encourage the continuance of Canadian business in fragmented and perhaps uneconomic units. Elsewhere, we have recommended that the government review the designated surplus provisions with a view to considering whether, over some period of time, such provisions might be



significantly reduced in their impact. We mention the point again here, because considerations involving designated surplus also relate strongly to the consideration of the tax consequences of acquisitions, reorganizations and rollovers.

**The Chairman:** On consolidated returns of income, we called the attention of the government to that, if you recall, and there is no comment.

I think many accountants, lawyers and business people felt a very strong view that there should be a right to file consolidated returns.

**Senator Molson:** Mr. Chairman, I believe there has been a change in the possibility of its application, in the budget, where the rate of taxation on manufacturing activities is different from that of other corporate activities, and the matter of consolidation as a result would be even more complicated than it would have been before.

**The Chairman:** You mean, it would reduce the corporate rate?

**Senator Molson:** On some of the corporation's activities. I have not sought any expert advice or had any discussion with experts on this.

**The Chairman:** Remember the illustration we had here about the man who got some legal advice that may not have turned out too well? He incorporated individually each hamburger stand as a separate company. Some made money and some of them did not. On those that made money he had to pay tax, but on the ones that did not make money the loss was for his account. He should have got good advice.

**Senator Molson:** Then you get manufacturing and non-manufacturing in different proportions.

**The Chairman:** Possibly we should make a note to look at this.

**Senator Molson:** To re-examine it.

**The Chairman:** To see what may be the effect.

**Mr. Poissant:** This has not been published yet, the definition of what will be "manufacturing."

**Senator Molson:** No, not the definition; but everyone I know of is very busy trying to make up their mind as to whether they consider certain activities come under one heading or the other. When you have large and diversified companies, it is quite a problem.

**The Chairman:** As between manufacturing and processing.

**Mr. Poissant:** The Bar had this to say, Mr. Chairman, with regard to these consolidated returns of income:

We recommend that the government consider the adoption of a system of filing of corporate returns of any group of corporations in which one particular group of

shareholders owns, directly or indirectly, 90% of the issued shares of each of the corporations concerned. Such consolidated returns would be prepared on essentially the same basis as consolidated financial statements, in that profits and losses of corporations could be offset and the impact of intergroup transactions would be eliminated.

**The Chairman:** Frankly, I am just thinking out loud on the point you raised. If I can consolidate losses and profits and take the consolidated return as the base for may being subject to corporate tax, certainly the net that turns out will be the net of the income after you have charged off all your losses on operations that are operating losses. So, the sum total of what would be left is what would be subject to the reduced manufacturing rate or the processing rate, if you are in that kind of business.

**Senator Molson:** If you are in that and other kinds of business, in service industry and in manufacturing, and in different units, and where both activities occur in one corporate frame, one corporation.

**The Chairman:** You may have to "unframe" or "disframe".

**Senator Molson:** "Disframe" or "reframe".

**Mr. Poissant:** You will have to allocate, as it is your income from various sources, but it does not change the need for a consolidated return where it is necessary.

**Senator Molson:** I quite agree with that.

**The Chairman:** I have made a note of it, so that we can look at it.

**Senator Molson:** I think it does need to be re-examined in the light of this amendment.

**The Chairman:** That is right. Now, the next one.

**Mr. Poissant:** The next is No. 12, and the Senate committee recommendation was:

#### 12. Construction Industry

The completed contract method on fixed sum contracts of under two years' duration should be incorporated in the proposed legislation as an accepted method to determine a construction business' taxable income for year.

In the budget proposals, there was no comment whatsoever.

**Senator Cook:** Does that mean that because it was not commented on at all it might still come up in the amending act? Has it been commented on in the budget?

**The Chairman:** If you recall, the construction industry appeared before us and did say that as a matter of practice in the department—and this is my recollection—they were permitted to file on a completed contract basis. But there is nothing in the statute which really gives them that right, and they wanted something in the statute. I did understand Mr. Benson to say—I have trouble distinguishing between the times he was here and the times when I was talking to him—that they were going to deal with the construction industry by regulation. I pointed out to him that I did



not know what the value of a regulation was if you did not have some statutory background for it. There is nothing in the proposed amendment that would give authority for filing of a completed contract method; but the practice has gone on for some years.

**Senator Carter:** There was nothing in the previous Income Tax Act, was there?

**The Chairman:** No.

**Senator Carter:** So we are still in the same position?

**The Chairman:** Silence in a statutory enactment is an uncertain basis on which to pass a regulation, or to presume that forever they are going to be effective. Someone may come in sometime and say, "There is no law on this. Therefore I am going to disallow it". The only defence you have is that the custom is there, or that is the traditional method. I think it is something we should note and examine further, and see if the industry has actually received some assurance. If they have, it may well be that it should have statutory confirmation.

**Senator Cook:** In our Proceedings, at page 51:30, Mr. Benson dealt with the point of joint venture.

**Senator Connolly:** Someone should have asked him what the authority was for the present practice or rule.

**The Chairman:** Yes. I think I said something to Mr. Benson about that. At page 51:30 it says:

One submission of the construction industry was in connection with joint ventures.

That was another aspect of it.

**Senator Cook:** Another aspect, yes.

**Senator Burchill:** What is the present practice on a completed contract under two years' duration? Does the contractor, when making out his income tax, estimate the amount of profit made so far? How do they do it now?

**The Chairman:** The explanation they gave to us was that they filed on a completed contract basis. I have not examined any of their returns, nor do I act for any construction company. So it may be that Mr. Poissant or Mr. Mitchell would know more about that aspect of it.

**Mr. Mitchell:** I believe that statement made to the committee is correct, that on contracts of this type the completed contract method is used. That means that no profit or loss is reported on that particular contract until the job is finished.

**Senator Connolly:** It is a sort of cash basis.

**Mr. Poissant:** The great disadvantage of this method, which is permitted by administrative practice at the federal level, is that they say that if you use that method of reporting your income you will not be permitted the "holdback" at the end of the year or at the end of the contract. The industry says that it is unfair, because the government has no right to say that holdbacks are not permitted, when the courts have decided that holdbacks were not income.

Therefore, the construction industry feels that if the complete method is used they should not be refused the right of holdback, which is permitted by court decisions. This is the unfairness of permitting the use of the complete method in practice, but not in the law. Should the department have the right to say that if the taxpayer wants holdback, he cannot use the complete method, this method is not recognized in the Act but only in practice? Therefore the construction industry says: "Insert the complete method, as a recognized method of reporting income, in the Act. Follow your practice but do not refuse us the holdback at completion of the contract, which we are normally allowed to do."

**Senator Connolly:** Are you referring to the holdback made by the principal contractor in respect of subs?

**Mr. Poissant:** The general contractor, or subcontractors with the general contractor.

**The Chairman:** This would take care of the possibility of liens. There must be some holdback.

**Senator Connolly:** How does the problem arise in respect of the holdback by the main contractor in respect of subcontractors? He is simply holding back to protect himself against liens and claims of various types, but that is not income in his hands.

**Mr. Poissant:** Not until it is received.

**Senator Connolly:** That becomes income, perhaps, when it gets to the hands of the subcontractor.

**Mr. Mitchell:** The point is that the amount held from the contractor by the person having the work done is still owing.

**Senator Connolly:** Do you mean the owner?

**Mr. Mitchell:** Yes.

**Mr. Poissant:** This could apply, of course, from the owner to the general contractor and, in turn, from the general contractor to the subcontractor.

**Senator Connolly:** The problem arises that if I am the owner and hold back 15 per cent, when the contractor receives it it becomes income to him.

**Mr. Poissant:** When it is actually received, because it was decided by the court in the *Wilson* case that a holdback is not income until you are entitled to it.

**Senator Connolly:** I can understand the problem of the contractor who wishes to be taxed on the basis of completed contracts. Was the other problem, connected with holdbacks from the contractor by the owner, raised by the industry?

**The Chairman:** As Mr. Mitchell told us, the department declares that if the filing is on the basis of the completed contract, the holdbacks must be included as part of the income on which the profit is calculated. If that is not done there is no law to enable the filing on a complete contract basis.



**Mr. Poissant:** The next item is Caisses populaires and Credit Unions. These amendments have taken place. Item 14, Administration and Enforcement.

**The Chairman:** We made certain recommendations in this regard, on which there is no comment. We will have to decide when the bill is received what we will do.

**Senator Cook:** But my note reads: "The amendments to Bill C-259 alleviated this problem."

**Mr. Poissant:** Yes, that refers to item 13, Caisses Populaires and Credit Unions. Those amendments were made before the final bill and were accepted.

**The Chairman:** We heard the representatives of Caisses Populaires and Credit Unions and accepted the views which they put forward, which were dealt with in one of our reports. Then, suddenly Mr. Benson's office made an announcement of further amendments. These amendments reflected those recommended by the committee, not necessarily because we recommended them, but the Caisses Populaires and Credit Unions persisted in their representations to the minister. It then happened that the amendments were in line with what we recommended, having accepted the position put forward by these two organizations. We have to indicate what happened in relation to our recommendations, so it was necessary to include this item in the list.

We made recommendations with respect to item 14, which refers to Administration and Enforcement, and there is no comment. It is therefore difficult to say anything more at this time. Should these items appear not to have been dealt with at the time the bill is received, we will then decide what should be done.

**Senator Carter:** For the record, the saving provision in section 56(3) should perhaps be inserted. It reads:

(e) The saving provision found in section 56(3) of the former Act should be introduced into the present Act.

It would be useful to insert it here.

**Mr. Poissant:** The old section 56(3) provided that if section 56(1) and section 56(2) are applicable both cannot be used at the same time. It is either one or the other. The replacement section in the new act seems to provide that the minister could apply both section 56, new (1) and section 56, new (2).

**The Chairman:** They are civil penalty sections, are they not?

**Mr. Poissant:** No, they have to do with misrepresentations in tax returns. Section 56(1) provides the four-year limit for imposition by the minister of a 25 per cent penalty for misrepresentation in a return. Section 56(1) and section 56(2) were penalty provisions, but one could not be applied over the other, because of the provisions of section 56(3).

**Senator Carter:** Under the new act the minister could apply both.

**The Chairman:** That is correct.

**Mr. Poissant:** Of course, the wording of section 56(1) has been changed and now the misrepresentation is of any nature, including innocent misrepresentation. The wording has been changed in such a manner that some commentators say it might not be necessary to have the provision of section 56(3) because the wording of section 56(1) and section 56(2) is so clearly defined that one could not encompass the other. Therefore there is no necessity for a saving provision.

**Senator Connolly:** What do you think?

**Mr. Poissant:** I am of the opinion that there should be a section 56(3). I raised that point in a meeting with Mr. Cohen. I was told that some lawyers said there might be a necessity for it, and I still believe, because of the wording, that there should be that provision.

**Senator Connolly:** I do not question the chartered accountants' interpretation, but we have no real interpretation.

**Mr. Poissant:** We do not have before us a copy of the old act.

**Senator Cook:** We have to guard against making it too clear.

**The Chairman:** If we operate on the principle that a saving clause can never be too clear, we would still leave in subparagraph 3, making the assurance doubly sure.

**Mr. Poissant:** I am not a lawyer but I have been in close contact with lawyers. I felt there was some benefit in having 56(3). They say that it is not the intention of the minister to apply it, but it should be there in any case. Section 163(2), which was the old 53(2), and refers to the minister requesting or demanding information. If one fails to answer that demand, it might be deemed to be a misrepresentation and he will be subject to the penalty provided under 163(2). Perhaps I am going too far, because a legal opinion is required.

**The Chairman:** It is a matter of osmosis. By being in the area where legal viewpoints have been expressed around you, you may have absorbed some of it. Therefore I am interested in your views.

**Mr. Poissant:** Section 163(1) says:

Every person who wilfully attempts to evade payment of the tax payable by him under this Part by failing to file a return of income as and when required by subsection 150(1).

That is the normal requirement—

Is liable to a penalty of 50 per cent.

That used to be 25 per cent—

of the amount of tax sought to be evaded.

That is the old 53(1) except for the rate. Section 56(2), the new section 163(2), says:

Every person, who knowingly, or under circumstances amounting to gross negligence in the carrying out of any duty or obligation imposed by or under this Act, has made, or has participated in, assented to or acquiesced in the making of a statement or omission in a return, certificate, statement or



answer filed or made as required by or under this Act or a regulation, as a result of which the tax that would have been payable by him for a taxation year if the tax had been assessed on the basis of the information provided in the return, certificate, statement or answer is less than the tax payable by him for the year, is liable to a penalty of 25% of the amount by which the tax that would so have been payable is less than the tax payable by him for the year.

**The Chairman:** This is an item that the committee should look at in a particular way.

**Senator Molson:** In fact, the whole of section 14.

**The Chairman:** On 15 we are dealing with the evaluation date. That has been taken care of.

**Mr. Poissant:** We come now to the pulp and paper industry:

(a) the concept of "earned depreciation" should be introduced or, alternatively, additional capital cost allowances should be granted.

(b) expenditures for the control and abatement of pollution should be financed by government grants or long-term interest-free loans or by special capital cost allowances.

Your committee received quite a lengthy brief from the pulp and paper industry, which wanted a reduction in their taxable profit in order to reduce their income tax. However, your committee felt that there was not enough justification to support such a request which, in fact, meant a reduction of their taxable profit by one-third. In (a), (b) and (c) on the same page the government has not come out with anything for the pulp and paper industry. However, they said they would reduce the income tax rate, as Senator Molson mentioned, for manufacturing and processing profits to 40 per cent. This industry should qualify.

**Senator Burchill:** Why would it not qualify? You used the word "perhaps". I thought that was specially intended for the pulp and paper industry.

**Mr. Poissant:** It would seem to me that part of the pulp and paper industry is sometimes excluded from that type of special treatment. I recall, for instance, when there was a special tax under section 40A. The logging operation of the pulp and paper industry had been excluded from that incentive.

**Mr. Mitchell:** I would assume that the industry will qualify for it. However, the ways and means motion which has been tabled excludes certain enumerated types of companies which will not qualify for the abatement. In addition, it says:

such other activities as may be prescribed by regulation

Will not qualify. We have no idea what companies may be excluded. My assumption is that they should qualify.

**Senator Connolly:** What resolution is that?

**Mr. Mitchell:** The Ways and Means resolution No. 15 of the Income Tax Act.

**The Chairman:** You can see why the word "perhaps" was used, Senator Burchill.

**Mr. Poissant:** The regulation has not been published yet. There may be exceptions there.

**Senator Burchill:** Did not the minister explain in the other place that this was specially applicable to those industries that were competing against other industries?

**The Chairman:** When you have a statutory provision, with exceptions that may be provided by regulation, one must at least sound the word "perhaps" when you do not know what they are.

**Senator McIlraith:** There is some confusion here. You can relate it to two things: to manufacturing in Canada or to manufacturing for sale in Canada.

**The Chairman:** The pulp and paper industry exports. It is their operations in Canada which produce the product which they sell. The question is whether the profit from those operations, since the actual proceeds of sale are gained abroad, has been earned in Canada.

**Mr. Mitchell:** I do not think there is any ambiguity in the resolution itself.

**Senator McIlraith:** Not in the motion, no, but in the summary; there is a possibility of that.

**Mr. Mitchell:** I agree.

**The Chairman:** What resolution is that?

**Mr. Mitchell:** That is resolution 15.

**Mr. Poissant:** The exclusions are listed at the bottom of the resolution, so logging is excluded but not the pulp and paper industry; therefore, they should be entitled to the reduced rate. They will have to make an allocation between their logging operation and their pulp and paper. I have no hesitation in thinking that they should qualify amply.

**The Chairman:** I notice the point in connection with "earned in Canada" is that you find it well down in resolution 15, where it says:

... for the purposes of this provision, the manufacturing or processing of goods for sale or lease does not include

Then there are exclusions. There still might be some question of tidying up the language. First of all, the amount is to be "determined under rules prescribed for that purpose by regulation". What that will be I do not know, and I would not take a running broad jump at it. As for "a corporation's income for a taxation year from the manufacturing or processing in Canada by it of goods for sale or lease", I suppose if they manufacture or process in Canada goods for sale or lease anywhere, that would meet that.

**Senator McIlraith:** That meets the point in the summary. It is not related clearly to manufacture. It can be argued it is related to sale.



**The Chairman:** What triggers the benefit of the tax is that you have manufacturing or processing operations in Canada to produce a product for sale or lease. It does not say to produce a product for sale or lease in Canada.

**Senator McIlraith:** But the summary does.

**The Chairman:** In the memo, I agree, those words are misleading.

**Senator Lang:** I suggest that the budget proposal is not really directed towards meeting our recommendation, but arises out of a much broader policy decision.

**The Chairman:** Oh yes.

**Senator Lang:** It may only incidentally impinge on our recommendation.

**The Chairman:** I think the committee should know that the pulp and paper industry when they appeared before us were very frustrated. Actually what they presented to us could only have been the result of frustration, because it just did not seem to tie together and they could not give adequate reasons. We devoted some time to study and came up with a proposal. I had letters from the industry and some of the company members of the industry association afterwards. They said it was only after they had been here, and after we had made the recommendations we did, that they were able to get what they felt was full and serious consideration of their problem. That is a matter of record. Maybe we are reaching out and trying to take too much credit, but obviously it did focus attention in a very serious way on their problem. They are one of the largest employers of labour industry in Canada, so their position is important to Canada. We did emphasize that. I am not saying we claim that the 40 per cent is the result of the representations we made, but it is a recognition of the problems in the pulp and paper industry as one of the manufacturing and processing operations.

**Senator Connolly:** Only time will tell, I suppose, how helpful the reduction of 40 per cent will be.

**The Chairman:** That is right, and whether the 40 per cent is enough or not. I see some announcements by some of the people in that industry that they are going to extend into mining because they think there is more future in mining operations than in pulp and paper. You may have noticed the interview in the paper with the President of Abitibi.

**Senator Lang:** They have had an unfortunate experience at Abitibi.

**The Chairman:** That is right.

**Senator Connolly:** Certainly this concept of earned depreciation was raised with them when they were here, and they seemed to feel it was a new idea.

**The Chairman:** I think it was a new idea in relation to this industry. However, our main concern, I guess, is the benefits

accrued, and we may have been around when that happened. The benefit as far as we were concerned may have been contributed just by association with them.

**Senator Carter:** Are you entertaining any briefs on this point, or any further presentation or submissions from the pulp and paper industry?

**The Chairman:** It is a little early to figure out yet. It could well be that there might be some briefs by some of the mining and petroleum industry. I would doubt if the pulp and paper industry would appear. They may feel that they want to work with what benefits they have. That may be it. There has been no indication.

**Senator Cook:** As a matter of interest, I assume we would not press (b):

Expenditures for the control and abatement of pollution should be financed by government grants or long term interest-free loans or by special capital cost allowances.

Really, special capital cost allowances are more important as far as income tax is concerned. The other two go outside it, do they not?

**The Chairman:** Is it not part of this relief so-called that is being given in mining and processing, the special capital cost allowances?

**Senator Cook:** I say that is the important thing, but to recommend expenditures should be financed by government grants is outside income tax really, is it not?

**The Chairman:** We have a limit to what we can say. We cannot direct the government to spend the money.

**Senator Cook:** Really we should put it the other way, and it should start off by saying "capital cost allowances or", instead of putting it at the end.

**The Chairman:** I would think if we were going to carry it any further we would have to be very careful. We are not going to propose an amendment to the bill to permit the government to spend money. We have to be careful where we reach and how.

**Senator Connolly:** Mr. Chairman, we have five more points. Are any of them likely to take a long time?

**The Chairman:** It is now ten minutes after twelve. Would 12.30 be a satisfactory time to adjourn?

**Senator Connolly:** What is the position this afternoon? What about the motion to sit?

**The Chairman:** We will have to adjourn until next Wednesday, because last night we asked the Senate for leave to sit this afternoon if necessary in order to complete our study, when we had brought these people here, but there was a dissenting voice so leave was not granted to put that motion. As far as I am concerned, I do not propose to go back to the Senate and ask for leave again.



**Senator Carter:** You do not have to ask for leave today because you gave notice yesterday; there is no leave required.

**The Chairman:** I have not seen *Hansard* so I do not know how it is reported.

**Senator Connolly:** We can go on until 12.30.

**Senator Beaubien:** If we wanted to sit this afternoon I think we could probably get the Senate to give consent.

**Senator Connolly:** Let us see how we get along in the next 20 minutes.

**The Chairman:** We will go until 12.30 and then decide. Then we might run into some more speeches, of the character of those of yesterday evening.

This may be a good place for me to insert a statement of fact.

This committee, in considering the bill—before the bill itself came to us—had 18 sittings, and then it had quite a number of briefs submitted as well, in respect of which witnesses did not appear. So, in view of the statement which Senator Croll made this morning, I just had his attendance checked at those committee meetings. He was present on three occasions—at the general meeting on November 4, at the *in camera* meeting on December 9, and at the meeting at which Mr. Benson appeared on December 13. So there were some pretty large assumptions that he made for such a slim record of attendance.

Now, can we go ahead with these items?

**Mr. Poissant:** We are at No. 17, on page 9. The Senate committee recommendations were:

17. Tax-Exempt Non-Resident Investors.

The exemption accorded to tax-exempt non-resident persons under the former Income Tax Act should be continued in the present Income Tax Act (this area pertains to the U.S. teachers group which had a pension fund invested in land in Canada.)

**The Chairman:** That was one of our priority items.

**Mr. Poissant:** In regard to the budget proposals, the remark is:

Effective January 1st, 1972, the Minister may issue a certificate of exemption to any non-resident person that meets the requirements of section 212(14)(b) of the Act, that is a trust or corporation established or incorporated for the principal purpose—

This is a key phrase here, for the “principal purpose”, whereas before the word was “solely”. So this is the distinction. It continues:

—of administering, or providing benefits under an employees pension plan and that throughout the three taxation years immediately preceding the taxation year in which its application for the certificate was made not less than 80 per cent of its property was held by it for the purpose of

providing such benefits. This provision may well alleviate the problem faced by the U.S. teachers fund.

**The Chairman:** You will recall that we dealt with this and made a specific recommendation. At that time I referred you to the speech which the then Minister of Finance, Mr. Walter Gordon, made when he introduced the amendments which gave this organization the exemption. Bill C-259 was taking away that exemption. That time limit within which they would continue to enjoy it was not enough to enable them to liquidate their holdings, because their investments were in the types of securities that did not have any ready market. They were not interested from that point of view; they were interested in security. One of the illustrations was that they had provided the money to finance all the fuel installations, for instance, at Malton Airport in Toronto. They said, “We are only interested in security, because we are interested only in the income; we are not subject to any tax in the United States and up to this moment we have not been subject to any tax in Canada, because we have been buying government bonds”. Mr. Walter Gordon thought that was a good idea. I guess that his view has not changed, because he supported it at that time and introduced the amendment to exempt them because it was debt securities they were dealing with and not with equity.

That is still their position. This amendment will continue their position. Otherwise, they would be discriminated against and very heavily penalized because they could not regulate the interest rate on all the advances that they had made to take care of a possible incidence of tax. It would be too late to do that. That is one that went over a hundred per cent.

Now we turn to No. 18.

**Mr. Mitchell:** Paragraph 18. The Senate recommendation was:

18. Mining and Petroleum (non-operators).

The 25 per cent automatic depletion now allowed to non-operators in respect of income derived from a royalty or other similar interest in a resource property should be continued for royalties received prior to 1981 in respect of interests which the taxpayer owned at June 18th, 1971, or which he was obligated at that date to acquire.

There was no comment at all made in the proposal by the Minister of Finance, in this respect.

**The Chairman:** That is a 25 per cent automatic depletion.

**Mr. Poissant:** Not now allowed.

**The Chairman:** It was allowed under the original Income Tax Act, but it was amended by Bill C-259.

**Senator Cook:** It says which is “now allowed . . . should be continued”.

**Mr. Poissant:** We are talking about the time this recommendation was made, and it was allowed at that particular time.

**Senator Beaubien:** It is not allowed any more.



**Mr. Poissant:** The chairman has made a good point, that it was allowed in the original Income Tax Act, that it is not allowed now, but at the time the committee made its report it was allowed.

**Senator Molson:** The government has taken a stand on this; the government does not want to do anything about it.

**The Chairman:** It would appear so, but what we have to decide, when the bill comes over is—

**Senator Molson:** Whether we want it to come back.

**The Chairman:** When we look at all the material.

**Senator Lang:** Was not our concern based on the point that the proposal would have a retroactive effect, that it would have an effect on the ongoing operation of commitments made under the old act?

**The Chairman:** This was an aspect that we stressed at the time. That is why we suggested a date down to 1981, to let all these commitments run out which they made when they enjoyed the favourable tax position. There is this unfairness of retroactivity in doing away with this allowance at this time.

**Senator Connolly:** How did we draw the line at 1981?

**The Chairman:** I think the evidence we had before us, which the association and the industry gave, was that this was the period of time which it would take for these things to run out.

**Senator Molson:** Ten years.

**The Chairman:** That is why we picked the year 1981.

**Senator Connolly:** This was a matter of fact, that the arrangements would expire in 1981?

**The Chairman:** We thought that they would have expired by 1981, and that is why we selected 1981. There is involved in our consideration of this the retroactive feature. People make commitments and they are stuck with them. Then the law changes.

**Senator Connolly:** Changing the rules in the middle of the game.

**The Chairman:** Then they need a fair run, to get out of their position.

We turn now to No. 20.

**Mr. Poissant:** The Senate committee recommendations are:

20. Non-Resident-Owned Investment Corporations.

**Senator Connolly:** Where are you reading from?

**Mr. Poissant:** No. 20.

**Senator Cook:** You skipped No. 19.

**Mr. Poissant:** Oh yes, we skipped No. 19 because this we referred to before. Section 19 was where all the Senate committee recommendations were implemented in the budget.

**The Chairman:** Very well. Paragraph 20.

**Mr. Poissant:** The Senate recommendations in Paragraph 20 were:

“The act should ensure that there is neutrality of tax treatment as between non-residents who invest directly in Canada and those who choose to vest through the media of a non-resident owned investment corporation, particularly with respect to the treatment of capital gains.

Here the committee asked simply that this should be the same treatment, neutrality. In one or two cases I remember, there would be a capital gain treatment given if the matter was held to be foreign investments.

**Senator Cook:** That would be the Guinness People.

**Mr. Poissant:** And they would be subject to withholding tax at source when capital gain is to be paid out by way of dividend.

**Senator Cook:** There would be no difference between what they were doing or achieving, and what the other people were doing?

**Mr. Poissant:** That is right, they should go through the normal channels. This is all it asks.

**The Chairman:** We quoted the department against itself, because in their first summary in dealing with the NRO's they said that they asserted a principle that the treatment of investment by a non-resident of Canada and by a non-resident-owned investment corporation, in other words, whether it is in individual or corporate form, should be the same. We quoted that from their own chapter, but make no comment.

**Senator Cook:** That is certainly one we considered to be very important and which should be continued.

**The Chairman:** Yes, it was No. 7 in our top priority recommendations.

**Senator Cook:** Because it is a prime source of capital coming into the country.

**The Chairman:** That is right.

**Mr. Poissant:** One of the objections was that the NRO is considered to be a “Canadian taxable property” and at the time of death would be subject to a deemed realization. It should not be treated as a “Canadian taxable property”, because it is held by non-residents who hold non-resident shares.

**The Chairman:** This was one of our top priority items. We felt strongly on it and should take note of that.

**Senator Cook:** The whole country benefits from it.



**Senator Lang:** The philosophy behind the NRO's is not entirely incompatible with the philosophy behind the legislation we are about to receive. I would say there is a linkage there.

**The Chairman:** I would say if we were to correlate the Income Tax Act dealing with NRO companies and with non-residents, the individuals, to what would appear to be the ideas of those who support the foreign ownership bill, we should repeal all these preferences, or conditions for non-residents bringing money into Canada. I can imagine the howl of disapproval that would go up from coast to coast of any such course.

**Senator Lang:** There is a self-evident relationship.

**The Chairman:** Yes, but the minister may have considered this to be a very sensitive area and therefore would do nothing to focus attention on it. After all, in their first summary of tax reform one paragraph focused attention on this and stated the principle that the treatment of the non-resident in corporate form should be the same as that of an individual.

**Senator Carter:** Do we know the reasoning behind the distinction made by the department?

**The Chairman:** No, we have had no answer of any kind. Mr. Benson made a comment on December 13 when I asked him with respect to this.

**Senator Connolly:** I thought this was an item he said would receive further consideration.

**The Chairman:** It is at page 51:29 of the proceedings, where the following appears:

The Chairman: Mr. Minister, one of the recommendations we made had to do with non-resident-owned investment corporations, and we felt that what you said in the summary was exactly what we thought should happen; that is, because you are in corporate form instead of individual form your position should be equitable. But the legislation does not do that.

Hon. Mr. Benson: I will let Mr. Cohen answer that.

Mr. M.A. Cohen (Assistant Deputy Minister, Department of Finance): Mr. Chairman, if you take into account the amendments that were tabled by the Government you get a situation where, by and large—I cannot say 100 per cent, but by and large—the treatment of a foreigner investing in Canada, whether directly or indirectly through an NRO, is to a large extent . . .

You will notice the qualification again.

. . . the same. Where you have significant differences is where you have an individual from one country investing in a third country using Canada as an intermediary and using an NRO for that purpose. There there are differences. But for an individual investing into Canada, by and large the treatment

is the same, given the amendments that were put in to permit the flow-through of the capital gains. I think that was the main criticism made to us by people who were involved in NROs and the Government responded to that criticism.

**The Chairman:** Well, if you read the submissions that we received, these people who were affected were substantial people carrying on substantial operations and representing very substantial investment of non-resident funds in Canada, and they were getting unequal treatment as against what an individual would get. And they referred to the capital gains situation.

Hon. Mr. Benson: That is taken care of in one of our amendments. It was taken care of in the house recently. Their main complaint in dealing with us was about the gains situation and we have taken care of that.

The position is that we have not found where that has been taken care of in the amendments.

**Senator Connolly:** They did at least give us some idea of why they were doing this, but then the minister said it has been corrected anyway.

**The Chairman:** Yes, so this is something we should really note.

**Senator Beaubien:** We should see that it is corrected now.

**The Chairman:** We now come to item 21. It was in this respect that Senator Lang posed a critical question with respect to life insurance and received an answer which seemed to be adequate. It is at page 51:37, where Senator Lang addressed the following to Mr. Benson:

The final one was the recommendation with respect to life insurance corporations, and in this regard we made the following recommendation:

. . . that corporate dividend income received and arising from investments made by a life insurance corporation out of its non-segregated funds in shares of capital stock of corporations be excluded from the allocation of investment income formula set forth in the proposed legislation.

We made a recommendation with respect to that. The minister replied:

We are presently talking to the industry about this. It is a technical amendment which would be of some advantage to them. That law has been running for two or three years now and this legislation has just shaken it down so that they now know where they stand. As I say, we are presently discussing this matter with them.

Therefore I would think that we could conclude that it may well be that if the life insurance companies, having gained consideration by the department, may come back to see us. However, the minister agreed at the time that this has developed enough that it is time to deal with this item.

Item 22 is the final one. What do you have to say, Mr. Poissant?



**Mr. Poissant:**

22. Private general insurance corporations.

(a) Special provisions should be introduced to alleviate the position of those private corporations which cannot take advantage of "refundable tax" by reason of any conflicting or inconsistent statutory law governing their conduct.

(b) Special provisions should be introduced to provide that in the case of a private general insurance corporation, compliance with the investment requirements of governing federal or provincial legislation should not constitute "ineligible investments".

**The Chairman:** I remember what that was. There was a conflict between the limitation on investment in a small business corporation and where you have a small insurance company. The latter's investment requirements are set out in the Insurance Act. You could have the situation where the insurance investments were perfectly legal investments under the Insurance Act, but would be ineligible investments under the Small Businesses Act. We thought they had better get together. It should not be difficult to do this, because the administration is in the same department, the Department of Finance. We made this recommendation. There is no comment. This is something that we should look at again.

We have come to the end of the road for this morning. We should plan to have a meeting on the same day next week, at the same time, to decide where we are going from here, whether in relation to any of these changes at this time we want to ask the minister or some other departmental official the reasons for not considering our recommendations.

We have to be careful, in the light of Senator Croll's statement. He seems to think that this would represent pressuring. I do not think it is the view of the committee that there would be any pressuring. We made recommendations, and we would like to know why they were not accepted. We could be given an explanation, or we could be told that it is government policy. If we are told that it is government policy, we will have to use our own judgment on whether we think there should be amendments. Government policy would be on display in a big way if we made amendments. If the Senate supported them, the bill would have to go back to the Commons.

**Senator McIlraith:** When do you anticipate the bill will come to us?

**The Chairman:** My own guess would be in a new Parliament.

**Senator McIlraith:** That being so, it seems to me that there is the obvious matter of there being insufficient time to consider some of these comments.

**The Chairman:** If there is not sufficient time, then they owe it to us to tell us so.

**Senator Connolly:** I am wondering whether it would be a good idea for you, as chairman, to write a letter to the minister enclosing a copy of this morning's proceedings for his consideration.

**The Chairman:** I am ready to do that. Certainly I think there should be a memorandum. There would, of course, be a little more freedom in my seeing him and discussing the matter with him. Where there is no comment in relation to our recommendations, I think that at some stage—perhaps that stage is when the bill comes to us—we are entitled to be told why. We may decide that the answer is a good one or is not.

**Senator McIlraith:** It seems to me that the time for making that decision would be at a later stage. We may be premature.

**The Chairman:** The effect of the decision would have to come when the bill is before us. The whole object of this exercise now is to prepare ourselves so that we may deal with the bill expeditiously.

**Senator Connolly:** Do you intend to make a report of this meeting?

**The Chairman:** There is a *Hansard* report of the meeting.

**Senator Connolly:** I mean a report to go to the Senate.

**The Chairman:** We should do what we did on the last occasion, and make a report.

**Senator Connolly:** You could tie up the comments in a neat package. Perhaps you could leave with the minister a copy of our proceedings of this morning. In that way you would be following the procedure adopted in respect of the White Paper and the Tax Reform Bill.

**The Chairman:** The committee does not have to make a decision today. Are we going to call anybody from the department and ask for an explanation at this stage? There is in the budget proposals and in the matters relating to the income tax legislation viewpoints expressed by the government in relation to those recommendations which were accepted, and there has been no comment on other items. In connection with some items, they have provided comment on recommendations which have not been accepted, namely those in connection with pensions and retirement savings plans, and coupling the deferred profit-sharing plans with that. They say that the whole subject matter should be reviewed. Perhaps that is enough for us, and we should decide whether this is something that should stand or whether we should insist on amendments. On other items on which we made recommendations there has been no comment.

**Senator Burchill:** We should decide that at the next meeting.

**Senator Molson:** Will you mention these discussions to the minister? If there is no acknowledgement or response by the time the bill comes forward, there is every opportunity for this committee to take whatever action it considers necessary.

**The Chairman:** We cannot take any effective action until we have the bill. However, our process of education should be a continuing one, and it would be very helpful and valuable for us to know why these particular items, which we thought were important, were not dealt with and not commented on.



**Senator Beaubien:** A chat with the minister would enlighten you. He may say that he has not had time to go into these things.

**The Chairman:** If you have time to consider the recommendations, to adopt some of them and make comments on others which are not being adopted, and you can ignore another group, then I am not sure to what extent the element of "not sufficient time" exists.

**Senator Lang:** If a memorandum went forward, that would be adequate at the present time.

**Senator Carter:** Would there be any objection to our having this very useful little summary appended to the report of today's proceedings?

**The Chairman:** No; it would be a suitable place to have it.

*(For text of summary, see Appendix)*

**Senator Molson:** Mr. Chairman, before we adjourn, may I say that I very much regret that there should have been an element of personality introduced into this morning's proceedings. I am sorry that Senator Croll is not here at the moment. I feel that such a matter should not have occurred in this committee. I am sure that I speak for all members of the committee, with the possible exception of one, when I say that I would never question your integrity or good faith in your handling of the affairs of this committee. As far as I am concerned, you have my confidence and support.

**Hon. Senators:** Hear, hear.

**Senator Lang:** Make that unanimous.

**Senator Connolly:** Make that unanimous.

**The Chairman:** We will now adjourn until Wednesday of next week at 9.30 a.m.

The committee adjourned.



## APPENDIX

COMPARISON OF MAY 8, 1972 BUDGET PROPOSALS AND RECOMMENDATIONS OF  
STANDING SENATE COMMITTEE ON BANKING, TRADE AND COMMERCESENATE COMMITTEE  
RECOMMENDATIONS

## BUDGET PROPOSALS

- |   |   |  |
|---|---|--|
| 1. Passive Income                             | <p>(a) Definition of term "foreign accrual property income" be amended to exclude possible taxation of passive income arising out of investment of business earnings invested over a short term, interest on trade receivables, etc.</p> <p>(b) The de minimus rule be broadened.</p> <p>(c) The term "foreign affiliate" be redefined to include only those corporations which are controlled directly or indirectly by Canadians.</p> <p>(d) The effective date of implementation of the passive income rules be deferred one year.</p> | Introduction of rules for taxing passive income deferred from 1973 to 1975 to permit further examination of their impact.  |
| 2. Dividends Received from Foreign Affiliates | All dividends received by Canadian corporations from foreign affiliates should be exempt from tax regardless of whether the affiliate is located in a treaty country or not.  | No comment (however these rules will not come into force until 1976).  |
| 3. Farmers                                    | <p>(a) Provision be made for the continued recognition of a farmer's "basic herd" as a capital asset.</p> <p>(b) Permit a rollover of farm land and any other capital property used by an individual in a farming activity (no deemed disposition at death).</p>  | <p>No comment.</p> <p>No comment.</p>  |
| 4. Employees Profit Sharing Plans             | <p>(a) Permit a rollover of property distributed in specie by the trustee of an employee's profit sharing plan to a retiring member.</p> <p>(b) Do not tax the employee until he ultimately disposes of such property, at which time any gain should be given capital gains treatment.</p>  | Senate Recommendations adopted in full.  |
| 5. Deferred Profit Sharing Plans              | <p>(a) Averaging provisions are inadequate.</p> <p>(b) Amounts distributed to a retiring employee should be accorded capital gains treatment to the extent that they include capital gains realized by the trust.</p> <p>(c) Property distributed in specie to an employee should be permitted a rollover.</p> <p>(d) The employee should not be taxed until he ultimately disposes of the property, at which time any gain should be accorded capital gains treatment.</p>   | <p>(a) Government sees no reason for not treating these plans in the same manner as pension plans and registered retirement savings plans.</p> <p>(b) Government to conduct a general review of the taxation of retirement income plans, including deferred profit sharing plans.</p> <p>(c) Amounts in a deferred profit sharing plan to the credit of an employee as of January 1st, 1972 (as opposed to amounts vested) are to be eligible for averaging under the old section 36 rules.</p> <p>(d) An employee who takes advantage of the section 36 averaging will be able to use the income averaging annuity provisions of the Act in respect of other income (this deficiency was noted in the Senate Committee's report).</p> |



SENATE COMMITTEE  
RECOMMENDATIONS

BUDGET PROPOSALS

6. Departure Tax

(a) Minister should have discretion to grant relief in respect of a departure caused by illness, by the transfer of an employee at the direction of an employer, or by any other deserving reason.

(b) When a taxpayer ceases to be a resident of Canada he should be deemed to dispose of all his assets at fair market value and should have to pay tax at a fixed rate of say 20% on such gains.

(c) If the taxpayer elects to defer payment of this tax, he should not be obliged to pay Canadian tax on his world income if he is not in fact resident in Canada in the year of actual realization (as the Act presently provides). Instead the taxpayer should be subject to Canadian tax on taxable capital gains in the same manner as other non-residents (ie. only on the gains actually realized).

(a) Mr. Turner has concluded that the departure tax rules may be too harsh. He will introduce amendments to change the rules so as to permit a taxpayer to pay the tax on a deemed realization in six equal annual instalments with interest, subject to the provision of satisfactory security. Alternatively a taxpayer may elect to have any particular capital property treated as taxable Canadian property, in which event he will be taxed only when the property is disposed of and only on the actual gain realized.

(b) Where a person leaves Canada and has not been resident in Canada for more than 36 months over the preceding 10 years, any accrued gains on property which he owned when he entered Canada will not be subject to tax when he leaves.

7. Gifts, Bequests and  
Devises to Charities

Where capital property is transferred to a charitable organization by way of gift, bequest or devise the taxpayer should be considered to have disposed of the property at its "cost amount".

(a) Where property is gifted to a charity and is suitable for actual use in the charity's activity, the donor may elect to value the property at any amount between its cost and its fair market value.

(b) Any bequest to a charity will be regarded as having been made in the taxation year in which the taxpayer died, in order to enable the taxpayer to deduct the value of the gift from his income in the year of death (subject to the normal limit on deductible charitable donations).

8. Mining and Petroleum

(A) Earned  
Depletion

(a) All Canadian exploration and development expenses should qualify to earn depletion, as should depreciable mine assets (whether new or used), depreciable production equipment and natural gas plants, and expenditures on new buildings and machinery as well as on expanded buildings and machinery. Therefore any expenditure which is required to reduce the profit from which depletion may be deducted should qualify as an eligible expenditure.

(b) The transitional period to convert from automatic depletion to earned depletion should be extended to 1980, or alternatively, companies should be permitted to "bank" eligible expenditures whenever incurred after deducting from such "bank" all depletion previously allowed.

The class of expenditures which earn depletion are to be extended to include all equipment acquired after May 8th, 1972 for the purpose of processing in Canada mineral ores after extraction and up to the prime metal stage. This will include all processing, whether or not related to a new mine or a major expansion, as well as custom processing. All income from such processing operations will be considered as income against which depletion may be claimed and in respect of which the 15% provincial abatement will apply.



SENATE COMMITTEE  
RECOMMENDATIONS

BUDGET PROPOSALS

(B) Accelerated Capital Cost Allowance	The recommendations were mainly technical in this area, such as a broadening of the definitions of "building", "mining machinery and equipment", "social capital transportation costs" and "major expansion of an existing mine".	No comment.
(C) Transfers of Resource Properties	The transfer of Canadian resource properties between related companies should be permitted to occur without incidence of tax.	No comment.
9. Rollovers	The rollover provisions should be broadened to include all situations where the underlying ownership remains the same.	Rollovers to be broadened for persons leaving Canada who resided in Canada over a short term only, for distributions of property out of an employee's profit sharing plan, and to perfect the spousal trust exemption in cases where a spousal trust is required to pay death duties.
10. Designated Surplus	The special tax on dividends paid out of designated surplus should be withdrawn.	No comment.
11. Consolidated Returns of Income	Corporations which are members of a qualifying group should have the right to elect to file on a consolidated return of income basis, or alternatively, a scheme of subvention payments similar to that formerly used in the U.K. be implemented.	No comment.
12. Construction Industry	The completed contract method on fixed sum contracts of under two years' duration should be incorporated in the proposed legislation as an accepted method to determine a construction business' taxable income for year.	No comment.
13. Caisses Populaires and Credit Unions	These organizations should not be required to include in their "cumulative deduction account" such portion of their taxable income as is set aside in the year as a reserve to the extent that such reserve is not available for distribution to members.	No comment.  NOTE: The amendments to Bill C-259 alleviated this problem.
14. Administration and Enforcement	(a) A hearing officer should not be an official of the Department of National Revenue.  (b) Taxpayer should be entitled to cross-examine all witnesses and to receive a copy of the transcript of all evidence.  (c) Any order excluding from an inquiry the taxpayer or his counsel should be subject to immediate review by a Judge of the Federal Court.  (d) If the Minister elects to proceed against a taxpayer by way of information or complaint, the Minister should not as well be permitted to levy a penalty.  (e) The saving provision found in section 56(3) of the former Act should be introduced into the present Act.	No Comment.



SENATE COMMITTEE  
RECOMMENDATIONS

BUDGET PROPOSALS

- |  |  |   |
|--|--|---|
| 15. Valuation Day                        | Property acquired by way of gift, bequest, or devise prior to June 18th, 1971 should be deemed to have been acquired at an amount equal to its fair market value at the date of acquisition for the purpose of calculating any taxable capital gain but not for the purpose of calculating any allowable capital loss.                 | Note that this deficiency was rectified prior to the enactment of Bill C-259.   |
| 16. Pulp and Paper Industry              | <p>(a) The concept of "earned depreciation" should be introduced or, alternatively, additional capital cost allowances should be granted.</p> <p>(b) Expenditures for the control and abatement of pollution should be financed by government grants or long term interest-free loans or by special capital cost allowances.</p>       | <p>(a) The rate of corporate tax on manufacturing and processing profits earned in Canada will be reduced to 40%. Perhaps this industry would qualify.</p> <p>(b) The cost of all machinery and equipment purchased after May 8th, 1972 by a taxpayer to be used for the purpose of manufacturing or processing goods for sale or lease in Canada may be written off in two years. This may be of benefit to the pulp and paper industry.</p> <p>(c) The existing provisions permitting a fast write-off of capital expenditures made by manufacturers or producers to provide air and water pollution control will be extended for one further year. Thus such machinery and equipment purchased at any time before the end of 1974, and buildings to house pollution control equipment which are started before the end of 1973, will be eligible for the fast write-off. These fast write-off provisions will be broadened to cover the cost of buildings, machinery and equipment acquired by independent companies providing pollution control services.</p> |
| 17. Tax-Exempt Non-Resident Investors    | The exemption accorded to tax-exempt non-resident persons under the former Income Tax Act should be continued in the present Income Tax Act (this area pertains to the U.S. teachers group which had a pension fund invested in land in Canada.)   | Effective January 1st, 1972, the Minister may issue a certificate of exemption to any non-resident person that meets the requirements of section 212(14)(b) of the Act, that is a trust or corporation established or incorporated for the principal purpose of administering, or providing benefits under, an employees pension plan and that throughout the three taxation years immediately preceding the taxation year in which its application for the certificate was made not less than 80% of its property was held by it for the purpose of providing such benefits. This provision may well alleviate the problem faced by the U.S. teachers fund.  |
| 18. Mining and Petroleum (non-operators) | The 25% automatic depletion now allowed to non-operators in respect of income derived from a royalty or other similar interest in a resource property should be continued for royalties received prior to 1981 in respect of interests which the taxpayer owned at June 18th, 1971, or which he was obligated at that date to acquire. | No comment.   |



SENATE COMMITTEE  
RECOMMENDATIONS

BUDGET PROPOSALS

- |  |   |   |
|--|---|---|
| 19. Transitional Averaging Provisions Concerning Lump Sum Payments out of Pension Plans and Deferred Profit Sharing Plans. | (a) Section 36 averaging should be available in respect of the portion of a lump sum payment received in a taxation year ending after 1973 out of the pension plan or deferred profit sharing plan which the taxpayer would have received pursuant to such a plan if he had withdrawn therefrom on January 1st, 1972.<br><br>(b) The general and forward averaging provisions of the Act should be available in respect of the portion of such payments which have been vested after 1971.                    | Senate Committee recommendations fully implemented. |
| 20. Non-Resident-Owned Investment Corporations   | The act should ensure that there is neutrality of tax treatment as between non-residents who invest directly in Canada and those who choose to vest through the media of a non-resident owned investment corporation, particularly with respect to the treatment of capital gains.  | No comment.   |
| 21. Life Insurance Corporations  | Corporate dividend income received and arising from investments made by a life insurance corporation out of its non-segregated funds in shares of corporations should be excluded from the allocation of investment income formula set forth in the act.  | No comment.   |
| 22. Private general insurance corporations.  | (a) Special provisions should be introduced to alleviate the position of those private corporations which cannot take advantage of "refundable tax" by reason of any conflicting or inconsistent statutory law governing their conduct.<br><br>(b) Special provisions should be introduced to provide that in the case of a private general insurance corporation, compliance with the investment requirements of governing federal or provincial legislation should not constitute "ineligible investments". | No comment.   |



## TAX TREATMENT OF DEFERRED PROFIT SHARING PLANS

### Treatment Under Former Income Tax Act

Under the former Income Tax Act an employee who belonged to a deferred profit sharing plan was not taxed currently on any amounts which his employer contributed to the plan on his behalf nor on the income earned annually by the plan. Instead, the employee was subject to tax on the full amount received on his withdrawal from the plan minus any portion representing a refund of contributions paid by the employee into the plan. The exclusion of the employee's contributions follows from the fact that the employee is not permitted a deduction from his income in respect of contributions to the plan, but is obliged to make such contributions out of tax-paid dollars.

Accordingly an employee is taxed, upon withdrawals from the plan, on his share of the employer's contributions, his share of all income earned by the plan, and his share of any net capital gains of the plan. This treatment was acceptable to employees under the former Act because of the relatively generous tax averaging provisions of section 36 in respect of lump sum payments.

### Treatment under New Income Tax Act (As amended by May 8th, 1972 Budget)

Under the new Act, the lump sum distribution from a deferred profit sharing plan will continue to be treated as ordinary income and the employee will be taxed upon his share of the employer's contributions, his share of all income accumulated by the plan and upon his share of capital gains both realized by the trust and unrealized (in respect of property distributed in specie to the employee).

An employee will be entitled to utilize the tax averaging provisions equivalent to the former section 36 in respect of any amount to which he would of been entitled under a deferred profit sharing plan on the assumption that:

- (a) he had withdrawn from the plan on January 1st, 1972;
- (b) there had been no changes in the terms and conditions of the plan after June 18th, 1971 and before January 2nd, 1972; and
- (c) there was no term or condition of the plan limiting, by reference to the period of service of a member, the amount of any payment or payments that may be made to him in the event of his withdrawal from the plan.

Furthermore, an employee who enjoys the benefit of the foregoing averaging provisions will not be precluded thereby from also

utilizing the forward averaging provisions of section 61 (by purchasing an income averaging annuity).

These two concessions, which are contained in the budget of May 8th, 1972, were measures which the Honourable E. J. Benson had promised to implement.

### Recommendations of the Standing Senate Committee on Banking, Trade and Commerce

In its report tabled November 4th, 1971 the Committee recommended the following:

1. that any amount distributed by the trustee of a deferred profit sharing trust out of capital gains realized by the trust should qualify for capital gains treatment in the employee's hands;
2. that where property is distributed in specie to an employee by the trustee, the trustee should be deemed to have disposed of the property for proceeds equal to its "cost amount" (as defined) to the trust;
3. that the employee should be deemed to have acquired the property at the "cost amount" to the trust; and
4. that the employee should not be taxed until he ultimately disposes of the property, at which time any gain should be accorded capital gains treatment.

In the May 8th, 1972 budget speech, the Honourable J. N. Turner stated that he had not yet been persuaded that a lump sum payment out of a deferred profit sharing plan should enjoy any special treatment. He stated that payments out of such a plan should be treated in much the same manner as payments out of pension plans and registered retirement savings plans. All three of these types of plans have in common the deferral of income tax on the contributions to and the income of the plan. (It should be noted that Mr. Turner declined to mention that, unlike pension plans and registered retirement savings plans, members of deferred profit sharing plans enjoy no deduction for contributions made to the plans.) Apparently the government considers that the price which members of deferred profit sharing plans will have to pay for a deferral of tax on both the employer's contributions and on the income earned annually by the fund is that capital gains treatment upon distribution must be sacrificed. This appears to ignore that employees who receive a lump sum payment out of a deferred profit sharing plan in the year of retirement will be subjected at that time to a heavy tax cost.

(Issues Nos. 1 to 3 inclusive)



...the value of the company is determined by the value of the assets...

...the value of the company is determined by the value of the assets...

...the value of the company is determined by the value of the assets...

...the value of the company is determined by the value of the assets...

...the value of the company is determined by the value of the assets...

...the value of the company is determined by the value of the assets...

PROPOSAL FOR THE REVISION OF THE COMPANY'S BYLAWS





Fourth Session—Twenty-eighth Parliament

1972

**THE SENATE OF CANADA**

**STANDING SENATE COMMITTEE**

**ON**

**BANKING, TRADE AND COMMERCE**

**The Honourable *SALTER A. HAYDEN*, *Chairman***

**INDEX**

**OF PROCEEDINGS**

**(Issues Nos. 1 to 3 inclusive)**





Fourth Session—Twenty-eighth Parliament

1972

# THE SENATE OF CANADA

Prepared

by the

Reference Branch,

LIBRARY OF PARLIAMENT.

## BANKING, TRADE AND COMMERCE

The Honourable SALTER A. HAYDEN, Chairman

### INDEX

OF PROCEEDINGS

(Issues Nos. 1 to 3 inclusive)



## INDEX

- BILL C-8**
- AN ACT TO AUTHORIZE THE MAKING OF CERTAIN FISCAL PAYMENTS TO PROVINCES, TO AUTHORIZE THE ENTRY INTO TAX COLLECTION AGREEMENTS WITH PROVINCES, AND TO AMEND THE ESTABLISHED PROGRAMS (INTERIM ARRANGEMENTS) ACT**
- Bill C-8**
- Purpose 1:6
  - Report to the Senate, without amendment 1:5
- Contracting-out Shared-cost Programs**
- Explanation 1:6, 1:16
- Equalization Payments**
- Consolidated Revenue Fund charged 1:11-12
  - Cost per year 1:7-8, 1:11, 1:18
  - Explanation 1:6-7, 1:11-14
  - Provinces consultation 1:7
  - Provincial percentages 1:12
  - Tables 1:17-32
- Post-Secondary Adjustment Payments**
- Explanation 1:6, 1:15-16
  - Maximum increase 1:15
- Revenues, Expenditures, Level of Government, National Account Basis 1926-1970**
- Tables, charts 1:33-39
- Stabilization Payments**
- Explanation 1:6-8, 1:10-11
- Tax Collection Agreements**
- Cost, billing provinces 1:9-10
  - Explanation 1:6, 1:8-9
  - Income tax, personal 1:9
  - Provincial revenues 1:10, 1:41-42
  - Succession duties, gift taxes 1:8-10
  - Tables 1:40-43
  - Taxpayers
    - Provincial tax collection, realization 1:9
    - Saving 1:9
    - Term, five years 1:8-10
- Tax Revenue Guarantee Payments**
- Explanation 1:6, 1:13-15
  - Revenues new system 1:13-14
- Transfer Payments 1971 Undistributed Income**
- Explanation 1:6, 1:15
- Turner, Hon. J. N., Minister of Finance**
- Statement 1:6
- BILL C-169**
- AN ACT TO AMEND THE INCOME TAX ACT**
- Bill C-169**
- Drafting 2:13-14
  - Report to the Senate without amendment 2:5
  - Transitional authority 2:14
- Corporate Tax**
- Deduction 7% 2:9-13
  - Reduction of refundable capital gains tax on hand 2:11-14
  - Reduction of refundable dividend tax on hand 2:9-11
- Income Tax**
- Additional deduction 3% 2:7-8
  - Cost federal treasury 2:8-9
  - Collected, expected amount 2:8-9
- RECORD OF AN ORGANIZATION MEETING CONVENED TO CONSIDER THE PROCEDURE TO BE ADOPTED BY THE COMMITTEE WITH RESPECT TO THE MATTERS REFERRED TO IN THE ORDER OF REFERENCE OF MAY 16, 1972**
- Banking, Trade and Commerce Standing Senate Committee**
- Benson, E. J., Minister of Finance, statements Dec. 13, 20, 1971 3:7
  - Meeting
    - Procedure 3:5, 3:24-25, 3:28-29
    - Purpose 3:5-6
  - Mitchell, C. B., Tax Consultant 3:11-23
  - Order of Reference 3:3
  - Poissant, C. A., Tax Consultant 3:8-28
  - Preliminary report, recommendations, Proceedings 47, Nov. 4, 1971 3:5
  - Tax Consultants appointment, objection, criticism 3:5-8, 3:25, 3:29



**Income Tax Act**

- Amendment assurance, Ministers of Finance Benson and Turner 3:6-8  
 Budget proposals 3:9  
   Deferred profit-sharing plans 3:8, 3:12-14, 3:30  
   Departure Tax 3:5, 3:14-15, 3:31  
   Employees Profit Sharing Plans 3:12-14, 3:30  
   Gifts, Bequests and Devises to Charities 3:16-17, 3:31  
   Mining and Petroleum 3:17-19, 3:31  
   Passive Income 3:9-11, 3:30  
   Pulp and paper industry 3:24, 3:33  
   Rollovers 3:19, 3:32  
   Tax-Exempt Non-Resident Investors 3:25, 3:33  
   Transitional Averaging Provisions Concerning Lump Sum Payments out of Pension Plans and Deferred Profit Sharing Plans 3:12-14, 3:26, 3:34  
 Committee recommendations 3:6, 3:9, 3:28  
 Administration and Enforcement 3:22-23, 3:32  
 Caisses Populaires and Credit Unions 3:22, 3:32  
 Consolidated Returns of Income 3:20, 3:32  
 Construction Industry 3:20-21, 3:32  
 Deferred Profit Sharing Plans 3:7-8, 3:12-14, 3:30, 3:35  
 Departure Tax 3:5, 3:14-15, 3:31  
 Designated Surplus 3:19-20, 3:32  
 Dividends received from Foreign Affiliates 3:10-11, 3:30  
 Employees Profit Sharing Plans 3:6, 3:11-14, 3:30  
 Farmers 3:11, 3:30  
 Gifts, Bequests and Devises to Charities 3:16-17, 3:31  
 Life Insurance Corporations 3:27, 3:34  
 Mining and Petroleum 3:17-19, 3:24, 3:31-32  
   (Non-operators) 3:25-26, 3:33  
 Non-Resident-Owned Investment Corporations 3:26-27, 3:34  
 Passive Income 3:9-11, 3:30  
 Private general insurance corporations 3:27-28, 3:34  
 Pulp and paper industry 3:23-24, 3:33  
 Rollovers 3:19, 3:32  
 Tax-Exempt Non-Resident Investors 3:25, 3:33  
 Transitional Averaging Provisions Concerning Lump Sum Payments out of Pension Plans and Deferred Profit Sharing Plans 3:26, 3:34  
 Valuation Day 3:23, 3:33  
 Comparison of May 8, 1972 Budget Proposals and Recommendations of Standing Senate Committee on Banking, Trade and Commerce 3:30-34  
 Tax Treatment of Deferred Profit Sharing Plans 3:35

**Appendices**

- A—Tables relating to Equalization Program of Federal Government (to be extended by Part 1 of Bill C-8) 1:17-32  
 B—Tables and charts showing Revenues and Expenditures by level of government on a National Accounts basis 1926-1970 1:33-39  
 C—Tables relating to Tax Collection agreements 1:40-42  
 —Comparison of May 8, 1972 budget proposals and recommendations of Standing Senate Committee on Banking, Trade and Commerce 3:30-35

**Witnesses**

- Thompson, A. E. J., Director, Tax Policy Branch, Corporation and Business Income Division, Finance Department 2:7-14  
 —Turner, Hon. J. N., Minister of Finance 1:6-16

**The Honourable Senators****Chairman:**

- Hayden, Salter A. (Toronto) 1:6, 8, 12-16; 2:7-14; 3:5-29  
 —Beaubien, Louis-Philippe (Bedford) 1:10-12; 2:10; 3:5-6, 8, 11, 14, 16, 27, 29  
 —Benidickson, William Moore (Kenora-Rainy River) 1:8-9; 3:7-8  
 —Blois, Frederick M. (Colchester-Hants) 1:10; 2:13  
 —Bourget, Maurice (The Laurentides) 1:6-7, 10; 2:8-12  
 —Burchill, G. Percival (Northumberland-Miramichi) 3:9, 11, 13, 21, 28  
 —Carter, Chesley W. (The Grand Banks) 1:9-10; 2:8, 11, 14; 3:8, 15-16, 19, 21-22, 24-25, 29  
 —Connolly, John J. (Ottawa West) 2:11-12; 3:5-7, 9-11, 14-18, 21-29  
 —Cook, Eric (Harbour Grace) 1:9, 14; 2:8-9, 11, 14; 3:8-13, 20-22, 24-26  
 —Croll, David A. (Toronto-Spadina) 1:6-8, 10-16; 3:5, 7  
 —Desruisseaux, Paul (Wellington) 1:10  
 —Flynn, Jacques (Rougemont) 1:11-16; 2:7-9, 11-14  
 —Hays, Harry (Calgary) 1:9, 11-12, 15-16  
 —Isnor, Gordon B. (Halifax-Dartmouth) 1:6; 3:8, 12  
 —Lang, Daniel (South York) 3:17, 24, 27, 29  
 —McIlraith, George J. (Ottawa Valley) 3:23-24, 28  
 —Molson, Hartland de M. (Alma) 3:8, 10-11, 19-20, 23, 26, 28-29

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada



