

Income Tax Act

The fourth harmful effect is: it has not provided an adequate source of government revenues mainly because of the provision by the government of tax concessions. The contrast of that is that a tax on costs would permit the government to eliminate the many tax concessions and reduce the effectiveness of the profits tax as a source of government revenue.

The fifth harmful effect is: it has resulted in the larger capital intensive corporations becoming relatively independent of the financial markets for the financing of their expansion projects and thus has inhibited the development of the financial markets. On the other hand, if there was a tax on net business costs, the result would be that the largest businesses in Canada would once again become more dependent on the financial markets for financing their expansion projects. At the same time, the removal of the tax on corporate profits would facilitate such market financing.

The sixth harmful effect is: by inhibiting the efficiency of the financial markets, it has reduced the effectiveness of monetary policy. On the contrary, with major businesses becoming more dependent, as they would under a tax on net business costs system, the financial markets and the monetary policy, through its influence on costs and the availability of credit, would become a more effective tool for combating inflation.

The seventh harmful effect is: it has resulted in pressure on accountants to stray from sound accounting principles in order to permit costs to be inflated for tax reduction purposes. If a tax on net business costs were implemented, it would permit accountants to spend more time on ways and means of assisting businesses in the reduction of their costs, rather than in the minimization of their taxes.

The eighth harmful effect is: it has led to inaccurate profit and loss statements and has generally clouded the economic picture of many corporations. On the other hand, the implementation of a tax on net business costs would lead to greater accuracy in profit and loss statements and present a clearer picture of business results.

The ninth adverse effect is: because of its complexity, it has resulted in an excessive administrative burden at both government and business levels. If a tax on net business costs were put into effect, it would eliminate the complexity of the present profits tax, and it could reduce considerably the administrative costs at both government and business levels.

The tenth adverse effect is: it has resulted in businessmen devoting an excessive amount of time and effort to the minimization of taxes, rather than the lowering of costs and the maximization of business profits. With a tax based on net business costs, the temptation for many businesses to spend time attempting to obtain from the government the maximum tax concessions possible would be reduced, and they would be permitted to concentrate on the maximization of profits.

● (2122)

Finally, Mr. Speaker, in number 11 the contrast here is that the tax on business profits has resulted in a misallocation of financial and other economic resources in Canada, and has

[Mr. Halliday.]

contributed to a higher cost economy. You could avoid that through the tax on net business cost, because this would result in a better allocation of economic resources and, therefore, would result in a more efficient and lower cost economy.

There are many arguments there as to why we should reconsider in a very serious manner our taxation system both at the corporate and at the personal income tax levels. Taxation has now reached a very high degree. The level of personal income taxes now has reached the point that those of us who should have money to spend no longer do so because the money is being taken away from us. Corporations are no longer in the position of being able to provide money to the government for the kind of services they obtain from the government.

One could go through all the arguments which bring one to the natural conclusion that if we are to have an upturn in our economy we will require to take a very serious look at our whole tax structure, a look that was not taken adequately by the Carter commission. That commission acknowledged that there were two kinds of taxation. It identified the two kinds, tax on profits and the ability to pay approach, and pointed out that there was a tax on net business costs; but it completely omitted to consider the latter. It dealt only with the tax and the ability to pay. We have ended up some twelve years later with the kind of mess in which we now find ourselves.

As I indicated in my earlier remarks, there are enough real experts in the field of economics and taxation who now agree that, if we are going to have an economy which will begin to flourish, we must adopt a different taxation structure. I recommend that this government, in its attempt to create an upturn in the economy, take a serious look at taxation, particularly at the corporate and personal levels, to determine if there is a way around the impasse which we now face, and in this way hopefully lead this country out of this present morass.

Mr. G. H. Whittaker (Okanagan Boundary): Mr. Speaker, I welcome this opportunity to speak on Bill C-56, that all-inclusive bill covering many tax measures. Most of these measures are welcomed by this party as they are proposals which, over the past few months and years, we have put forward as changes that should be made in our tax structure. My main intervention will be in respect of the clause in this bill which deals once again with the rollover of capital gains.

On December 13 last we passed a tax bill which included this rollover on capital gains. It meant that you could sell one farm and buy another without having to pay capital gains tax. When we discussed that measure, Bill C-11, we felt we were really doing something concrete and conclusive in this field. However, because of an interpretation by the Department of National Revenue we discovered that we really had not done what we thought we were doing. The spirit of the discussion about the legislation was such that we felt we had put this feature into place. We now find that the Department of National Revenue has changed the whole concept, and in effect has ruled or interpreted that a farm is not a farm.