

Government Orders

The legislation also proposes to restrict the use of certain tax shelters. These are ones where limited or passive investors in a partnership have been able to claim tax deductible losses and/or to receive cash distributions that actually exceed the cost of their investment.

Similarly Bill C-59 will also curtail the use of the tax avoidance technique known as a purchase butterfly. Let me remind members of how this flighty corporate provision has functioned.

Current federal tax rules permit corporate property to be divided pro rata among its shareholders on a tax deferred basis. This assists the splitting up of a corporation so that the shareholders can continue to carry on separately the corporation's business.

In recent years, unfortunately, the rules have been used to avoid or defer tax on the sale of corporate assets. In May 1993 the government introduced rules to curtail cross border purchase butterfly transactions. Bill C-59 proposes to modify these rules and extend them to all purchase butterflies.

The final measure I want to highlight is the proposal to make large private corporations ineligible for the small business deduction. In today's new economy small business is the major job creator. It is a sector that deserves effective targeted support.

Unfortunately under the existing rules this support was also going to larger firms, companies that do not have a reasonable claim on the limited public and taxpayers' purse.

The small business deduction recognizes the special financing difficulties and higher capital costs faced by the vital small business sector. The deduction lowers the basic federal tax rate on the first \$200,000 of active business income of Canadian controlled private corporations from 28 per cent to 12 per cent, a reduction of 16 percentage points.

This lower tax rate provides small corporations with more after tax income for reinvestment and expansion. Regrettably under the current rules, some very large corporations are also obtaining this benefit. The proposed rule changes will make large corporations, those with taxable capital of \$15 million or more, ineligible for the small business deduction. As well, the rule changes will reduce the deduction for corporations having taxable capital between \$10 million and \$15 million.

Let me acknowledge that Bill C-59 will not in itself resolve Canada's fiscal problems nor restore equity throughout the tax system. Those are the goals that will only be met by consistent, continuous effort, effort our government is committed to delivering.

Bill C-59 does take valuable steps in both directions, measures to broaden the tax base for fiscal renewal and even more important, measures to improve the fairness and efficiency of the tax system itself. On both counts it deserves the full support of the House.

As I said, Bill C-59 in itself is not going to change or fix all our problems. We do need a continuous and consistent effort to deal with the deficit and the debt.

I want to spend the remaining moments of my time to review very briefly some of the initiatives that the government and the finance minister have brought forward in preparation for our next budget.

On October 17, 1994, the finance minister came before the finance committee of the House of Commons and outlined the framework for economic policy. I want to remind hon. members of the first principles that the finance minister articulated for all members.

• (1035)

He said: "First, we have one overriding goal as a government, that is jobs and economic growth. Second, good economic policy and good social policy are one and the same. Third, a country that is to continue to care for its citizens must be a country that can pay its bills, and, fourth, we need to create a new infrastructure for a Canada of ideas and innovation". Finally he said that government itself must change. A government cannot or should not do everything. Responsibility should lie with those who are best able to do the job.

We have had changes in the world economy. We are now in a strong economic recovery. Jobs are being created. The job crisis is not just about a recession or a cycle. It is a global epidemic. The world economy is truly integrated. Trade barriers are now gone. Communications are instant. Transportation is efficient. Markets never close and of course information technology is exploding. All this spells competition and opportunity. To be successful we need to upgrade our skills to fit a knowledge based economy. In addition we must reform our social and income support programs upon which so many Canadians have become dependent.

The fiscal track we have been on is unsustainable, not because of ideology but because of its mathematical reality. The only answer to our job dilemma is sustained substantial economic growth. That growth requires improved productivity in terms of ingenuity, better management and paying attention to the common sense workers.

High productivity increases incomes and contributes to a higher standard of living for all Canadians. To improve our productivity we must also improve our skills.

During the social program review and in the budget review it has become clear that we will and we are reviewing all programs. Rather than trying to fix everything by ourselves we are also trying to facilitate solutions in partnerships with business, industry, and Canadians at large.