

Income Tax Act

The rates on the progressive income tax for the so-called middle income group have some curious financial implications. To some extent, they are a tax on inflation. Inflation has risen as high as 6 per cent a year. It rarely has been lower than 3 per cent a year. This is a result of fiscal dividends. As a taxpayer's income increases, he moves into higher brackets and, accordingly, pays relatively higher taxes. The new tax structure moves substantial payments into income for this so-called middle income group, mainly capital gains, research scholarships and other things. Even at the lower end of the scale, the so-called unemployment insurance coverage may now be extended to include teachers and salaried workers earning a substantially higher amount of money. This fiscal dividend becomes important.

In light of the fact the amendment will reduce the tax in the lower bracket and the fact the \$75 will be applicable to each bracket in some ways the proposal can be likened to the so-called temporary surtax which has now been removed. The surtax did something in that it was at least a tax on a tax on income. Those at the bottom of the scale contributed very little. Those who paid a lot of tax contributed substantially more. Through the progressive tax for the middle income group, governments each year, even in times of inflation and without any real growth, substantially increase their tax take in the income tax field.

With regard to the matter of averaging, I commend the government for making a very modest attempt at general averaging provisions. This is long overdue. In my particular profession, it is necessary to spend many years preparing to earn a living. I did not make any money until I was 34 years of age. I received less than \$1,000 a year. Then, I was pitchforked into a fairly large and substantial income. I do not know if this income is too much. However, I suggest that the progressive income tax creates economic distortions, particularly in the high salaried area. We might well consider the implications of this. A person's take home pay really reflects what society thinks he is worth or what he is able to command in society, whether or not this is always economically sound. In essence, people receive their take home pay plus taxes. However, we still persist in considering the gross salary or gross income of a person before taxes and on this basis make our assessment of how much he earns, whereas we should really be considering the individual's take home pay.

The very modest, general averaging proposition by the government is a backward averaging, 110 per cent in one formula. If it is above 110 per cent in the immediately preceding year or 120 per cent of the average income for the immediately preceding four years, you get the beginning of an averaging formula. It is useful. It should be of some value when salaries are increasing rapidly, as they often do between the ages of 40 and 50 and particularly in the 50's. However, there is no real way of increasing or giving a true averaging on a downward grade. This should be dealt with in the tax structure whenever possible. For people who reach a peak in their 50's, and must of necessity have a reduced income later, there is no provision for averaging on the downward trend. If a true averaging could be carried out, and I admit this would probably result in large and formidable changes in income tax

revenue, it might help our economic system substantially. If there were a true five year average it might reduce the demand for wage increases. For many years, farmers have been able to do this and it does not seem to have created enormous difficulties for the Department of National Revenue. In any case, the present averaging proposal is a step in the right direction. If it proves a sensible one and works to advantage we would be well advised to proceed with it further in the years ahead.

• (4:30 p.m.)

In the matter of income and annuity averaging, I should like to draw the attention of the parliamentary secretary to one feature which may not have been mentioned. The annuity must be bought within two months of the end of the taxation year, as the bill is presently drafted. This may be doing a disservice to the very people the legislation is designed to help. I have in mind a man who once in a lifetime sells a house or a business for a lump sum of money. Not being used to chartered accountants and so on, he may be unaware that this provision applies to him. If he must take action before the normal date on which he computes his income tax he may well find that the legislation does not help him.

In essence, the amendment put forward by the hon. member for Winnipeg North has much to commend it. I would support it in a general way. I would even support it on the basis that if it is to replace the 3 per cent cut in the personal income tax, whatever the equivalent is, then that should be built into the amendment, or something like it. I believe it would do much for the present state of the economy to provide increased income for the lower income group. I noticed in dealing with cases this summer that many of the lower income group were better off taking welfare, particularly if there were three or four children in the family, than working at occupations where their incomes would be subject to tax. I will clarify this statement by saying that if the government can accept the equivalent of 3 per cent income tax I would be happy to support the amendment in some way which could be worked out.

[*Translation*]

Mr. Latulippe: Mr. Chairman, I am happy to say a few words on the amendment under consideration.

The object of this amendment is to reduce the tax rate on the first \$500, from 17 per cent to 2 per cent. It is therefore with pleasure that I wholeheartedly support this amendment, because I know that Canadians already pay too much taxes.

We know that rates and taxes make the economy more sluggish and prevent its progress. This amendment to the Income Tax Act will reduce the already too heavy tax burden of the Canadian taxpayer. The latter would thus gain a small benefit or a small reduction in taxes; even if it is not much it is better than nothing at all.

It is our duty, as citizens and representatives of the people, to take part in the discussion and support this amendment, and if that had been possible, I should have liked to say more on this subject.

We support this amendment, and commend the hon. member for Winnipeg North Centre (Mr. Knowles) for