Another aspect of a capital gains tax relates to capital losses, which under the proposed legislation will be deducted from the capital gain. In the case of losses that are greater than the original capital investment, the maximum deduction will be $1,000 a year. This means that the federal government would not be able to afford losing revenue if a large capital loss was sustained, or if the stock market depreciated.

While on the subject of implementing a capital gains tax, may I quote from the United States Congressional study of federal income tax treatment of capital gains and losses of June 1951:

> Congress has tried time and time again to find a method both practicable and equitable of taxing capital gains. Such a method has been conceived to be one which would interfere as little as possible with the realization of gains and at the same time would not stimulate loss realization too much. But finding satisfactory formulae for achieving the divergent equity and incentive objectives that are entwined in the philosophy of capital gains taxation and at the same time protecting the revenue has been a difficult problem. Consequently the history of the legal provisions has been a record of compromise and change without satisfactory solutions.

Even so, the present complications of the U.S. treatment of capital gains stem less from the actual design of the tax than from the attitudes of Congress toward taxation. During the past quarter of a century the United States has sought to moderate the excessive top rates of income tax by providing, in effect, a whole series of loopholes whereby ordinary income could be converted into capital gains. Once this practice had started, initially perhaps with some justification, it became virtually impossible not to extend the range of such preferences and, at the same time, to open up new loopholes for tax avoidance.

In the meetings currently being held in Vancouver by the Canadian Tax Foundation, the question of a capital gains tax has been raised. According to a report in this morning's *Globe and Mail*, it was pointed out that it is very difficult to define what is capital and what is income. Up until now capital gains have been tax free, though there has been a tendency for revenue officials and for judges who hear tax cases steadily to encroach upon this freedom and to include capital gains within income. If the government introduces a capital gains tax I think we can expect a reversion back to the original attitude. In other words, where the line is shadowy there could be a movement away from regarding it as income. On the other hand, what is now considered to be income might well come to be regarded as a capital gain, so the taxpayer would have to pay some tax to the federal treasury and this would be regarded as a satisfactory solution. In this sense, it may well be that the capital gains tax is not going to bring in as much money as we have been led to believe, because what is now considered to be income will in many cases be considered a capital gain.

• (5:00 p.m.)

Problems connected with a capital gains tax are largely considered in three ways. First, how do we attain equity of administration? In many cases there must be arbitrary administration in respect of capital gain. In fact, the tax should be on accrued gains, but the practice is it can only be on realized gains. We also have the problem of so-called bunched gains. In some cases capital gains may be realized in one year, while in other cases the capital gain may have accrued over a period of 20 years, but the individual has to pay the tax as though it was gained in the one year. This individual should receive some recognition of the fact that his assets took 20 years to be obtained. Finally, there is the problem of capital gains in relation to losses, which I mentioned before.

During the hearings on the white paper on taxation Professor Ilersic of Vancouver, who has a great deal of experience in respect of these matters in the United Kingdom, had this to say:

> It is in respect of land, in respect of real property, real estate, and also other assets which are not normally regularly valued, where difficulties arise. And most important of all, it is particularly difficult to value shareholdings in private companies, or closely held corporations. This is the biggest problem, and what has happened is that as far as the estate duty office is concerned now, the volume of work involved has substantially increased.

He was speaking of the United Kingdom and the problems there. The problems in respect of capital gains seem to be far-reaching and will be much more basic to our economy and tax structure than we think, because presently this brings in little actual revenue. The one great mistake the government is making in this bill is its failure to differentiate between long and short-term gains. For those who are willing to invest in long-term ventures and hold their investments for five or more years there may well be no capital gain. Those who invest for a short-term, for a year, perhaps should pay full tax, and so on, using the sliding scale suggested by the hon. member for Calgary Centre. Because there is no differentiation between long and short-term gains, this bill is deficient. The implications are quite clear. The effect of this will be, to some extent, a deterrent to investment.

Another thing that has been overlooked is the effect of the federal government moving out of the estate tax field. I think it must do so in order to bring in a capital gains tax and deemed realization on death. There has been no provision made for the provinces to work out some arrangement. It is almost certain that if the provinces are to get money from estate taxes, including my own province of Manitoba, they will have to levy heavy estate taxes which, combined with deemed realization on death, will mean that most estates will carry a heavy taxation load. It seems the government has been deficient in not clarifying what might happen when it vacates the estates tax field and brings in deemed realization on death by way of a capital gains tax.

One of the effects likely to flow from the combined impact of a capital gains tax and succession duties, if instituted in some provinces, is an incentive to foreign ownership of Canadian ranches and farms. Up to the present time, foreign ownership of Canadian land, as far as ranches and farms are concerned, has been minimal. Foreign ownership has been involved in our natural resources, and so on, but if the deemed realization on death, and estate taxes, continue to be levied by the provinces this will certainly mean that foreign owners will be in a position to avoid capital gains and succession duties within the framework of the law. To this extent Canadian farmers will be in an extremely disadvantaged position in competing with foreigners for Canadian farms. I think the federal government should, before it institutes a capital gains tax, work out some formula with the provinces in order that the two taxes will not cause a loss of revenue to