

Statements by Ministers

Corporate tax reforms will ensure that life insurance companies pay appropriate tax on their regular corporate income. However, without further action, investment income earned by life insurers on funds accumulated in respect of life insurance policies would have remained untaxed.

I therefore intend to tax this income in the hands of the insurance company at a rate of 3 per cent in 1988 rising to 15 per cent by 1992. This measure will include some modifications to the original White Paper proposal. It will remove a major tax preference for the life insurance sector. In conjunction with reforms to the regular corporate income tax, this will ensure that insurance companies are appropriately taxed.

To deal with the increasing problem of abusive tax avoidance and evasion, the White Paper proposed a number of measures including a general anti-avoidance rule. As a result of consultations, changes will be incorporated in the proposal to deal with concerns that were raised about the possible unintended scope and effects of such a rule. Draft legislation is being released today for further discussion. Implementation will follow these consultations.

Fiscal responsibility was a major constraint that we imposed on ourselves in evaluating proposed changes to the tax reform package. We would not and we will not abandon the principle that tax reform must pay its own way. Nor did we accept the notion that the bill for changes in the first stage of tax reform can be held over until the second stage. That is why we have rejected suggestions for larger personal income tax cuts now to be financed by sales tax reform later. Tax reform is not a reform-now-pay-later proposition.

Therefore, improvements such as child benefits have to be paid for now. To maintain the fiscal balance of the package, I am taking the following measures: additional taxes will be levied on banks and trust companies, including a capital tax on large deposit-taking institutions; effective January 1, 1988, the federal sales tax on alcoholic beverages and tobacco products, currently 15 per cent, will be increased by three percentage points.

We are proceeding with the changes to the existing sales tax as announced in the White Paper, according to the schedule set out in November. These measures will ensure that the first stage of tax reform is fully consistent with responsible fiscal management.

Over-all, the White Paper proposals and the measures I have announced today will reduce personal income taxes by \$12 billion over the next five years. This will be paid for by roughly equal increases in corporate and sales tax revenues.

I am tabling the Notice of Ways and Means Motions that will enable us to proceed with the measures that make up the first stage of tax reform. Most of the measures will come into effect on January 1, 1988. Personal income tax reductions will be reflected in payroll deductions beginning July 1, 1988. This will provide employers with adequate time to make the necessary adjustments.

The measures presented today deal with the first stage of tax reform. In the second stage the outdated federal sales tax system will be replaced by a multi-stage tax and a number of further adjustments will be made to the income tax system. The refundable sales tax credit will be substantially enriched, paid in advance, and extended to more households. There will be further income tax reductions for middle-income Canadians, and the income surtaxes will be removed.

The consultation process has indicated there is support among a wide range of interest groups for a new sales tax system—one that is fairer, more reliable, and more supportive of efforts to strengthen competitiveness, growth, and job creation.

A multi-stage sales tax system has been the subject of ongoing discussions. A multi-stage tax can be implemented either at the federal level alone or on an integrated basis in conjunction with the provinces. Currently, the opportunity presented by combining both federal and provincial sales taxes under one system is under discussion with the provinces.

Last week, after meeting with my provincial colleagues, I announced that we had agreed that work on the national sales tax should continue based on the following considerations: municipalities, hospitals, school boards, colleges and universities should not bear a greater tax burden under the national sales tax than they would under the existing sales tax regimes; basic groceries, prescription drugs, and certain medical devices should not be subject to tax.

Some Hon. Members: Hear, hear!

Mr. Wilson (Etobicoke Centre): These considerations reflect our commitment to ensuring that the design of the tax is consistent with the views of Canadians. They provide a foundation for further discussion of the national sales tax with the provinces. While much more work must be done before we can be sure that a national sales tax system can be achieved, I am encouraged by the progress to date with these and other discussions.

These proposals are the result of extensive consultations. This dialogue, with full involvement of the House committee, has been a clear improvement in the process of implementing taxation proposals. The flexibility of the Government has served Canadians well in achieving a better balance among the competing objectives and priorities that make tax reform the challenge it is. The result is an improved set of proposals for tax reform that retains the structure and principles established in the White Paper.

[*Translation*]

The measures before the House today will put more money into the hands of Canadians. The freedom to make their own decisions, as individuals and families, on how best to use that money is at the heart of the government's philosophy of economic renewal.