6.21 **6. We recommend that the stage one legislation limit the inclusion rate of capital gains at $66\frac{2}{3}$ percent.**

6.22 Continuing with our concerns with respect to investment, we have noted with interest submissions which have suggested that the abolition of the $1,000 investment income deduction would have a particularly negative impact on lower-income Canadians and the elderly. Many of these people have modest savings in the form of bank accounts, Canada Savings Bonds and shares purchased under employee share-ownership programs. The effect of the reform proposals is to increase the federal tax burden on the first $1,000 of income generated from these sources to at least 17 percent from nil. Revenue Canada figures for the 1984 taxation year, the most recent available, show that nearly three-quarters of the total amount of investment income deductions claimed was accounted for by taxpayers with incomes of $30,000 or less. Taxpayers aged 65 and over accounting for 8.2 percent of total income assessed in 1984 but were responsible for 25 percent of the total amount of investment income deductions claimed that year.

6.23 **7. Accordingly, we recommend that a tax credit for Canadian source investment income be instituted at the rate of 17 percent of such income to an annual maximum of $170, transferable between spouses.**

6.24 We would also comment on the proposed preferred share dividend tax which was unveiled on 18th June but which, strictly speaking, is not part of the tax reform package. We recognize that there is a significant problem where companies which pay little or no tax declare dividends which are treated in the hands of the recipient as though they come from fully taxable profits. On the other hand, the complexity of the rules stand in stark contrast to promises to simplify the tax system. There are other solutions available which might be considered.

6.25 **8. We recommend that the Government not proceed with the proposed preferred share tax and that it develop a more effective alternative to prevent dividends from receiving preferential treatment when they are paid by low-tax or non-taxed corporations.**

6.26 The White Paper proposals with regard to investment in the domestic film industry are extremely troubling. While we note that significant government financing for the film industry is available through Telefilm Canada, the fact remains that all evidence indicates that private investment in films and television productions will be cut off if the White Paper proposals are proceeded with.