

I agree with you that if we are really going to succeed in reforming taxation we must cover the whole field.

Senator Cook: You have to start somewhere. If you consider the whole field you do nothing at all.

Mr. Philip: It is extremely important, in order to make a judgment as to the impact on the middle-income group also, to consider all these other areas.

These proposals appear to place a fairly heavy burden on those earning between \$20,000 and \$25,000. Probably that is the area upon which the sales tax falls most heavily. They spend a greater percentage of their income than any other group on sales tax items. The groups below that level spend a great proportion of their income on non-taxable items, food, children's clothes and, to some extent, housing. The groups above that probably spend a proportion of their income in investment situations which do not carry sales tax. Therefore we have a concentrated burden of all the taxes in that middle-income group.

Senator Cook: In section 22 on page 16 you say that the top marginal rate should be appreciably higher than the 50 per cent and should be reached beyond the level of \$24,000 now proposed. It would be very helpful to us if you could be a little more precise. What do you suggest should be the top marginal rate?

Mr. Philip: We are not really too clear as to how the rate structure was set so any view would be just a judgment on an individual basis. Our committee in discussing the matter certainly would not have advocated anything above 65 per cent and probably somewhere between 60 and 65 per cent.

Our concern was not necessarily with increasing the 50 per cent rate to 65 per cent, but to have a gentler progressivity below and past the \$25,000 level. To the extent that policy dictated that additional funds had to be raised to offset the revenue lost by that change, the rate could go above 50 per cent.

We would be prepared to see part of that loss offset by a rate over the 50 per cent level. I do not think any one of us would wish to see it. Certainly this could be an area where the Government should consider using part of its \$600 million of extra revenue to soften that progressivity.

Senator Cook: I agree that there is nothing sacred about 50 per cent. I am trying to find out what you think should be the maximum.

Mr. Philip: One of our concerns is that a person earning \$20,000 now, with 10 per cent of his income in capital gains, is not going to take great solace from the situation of a man who has \$100,000 now with 10 per cent additional in capital gains and is going to pay a smaller increase proportionately than the \$20,000 tax-payer will.

He is going to be hit with increased taxes plus more on his capital gains and see a reduction given to a person who is substantially better off than he now is.

We do not feel that, although capital gains may in total be higher in the upper income levels by percentage of income, they are that much greater when you consider that we are discussing the group between \$15,000 and \$25,000.

The Acting Chairman: Perhaps we could move on to the employment expenses. You heard the Electronic Industries Association and their view on expense account living.

I would gather that your view is slightly different.

Mr. Philip: I do not think we would suggest that abuses cannot possibly be brought under control now by the present legislation. I do not think we would support the view that they should all be eliminated. We are trying to be practical and say that proper expenses to earn income which is taxable should be deductible, so that our view does not differ materially from the business associations that have put their views forward. We would certainly not like abuses to continue, and if there are any legislative requirements in order to bring them under control we would support them being established.

The Acting Chairman: That is most interesting. As you know, the White Paper proposes to do away with certain expenses, and that is all there is to it. The submission made by people like the Electronic Industries Association, with which I gather you do agree, is that the reasonableness of the expenses in the discretion of the Minister of National Revenue is the test, and the better test.

Mr. Philip: I would think there would be some disagreement if we got down to the nitty gritty of what is reasonable.

Senator Benidickson: Yes.

Mr. Philip: But in principle I do not think we disagree.