

*Income Tax Act*

year I pointed out that the sixth annual report of the Economic Council of Canada had stated that even if there were no change in taxation during the seven-year period between 1968 and 1975, the government's revenue would still double during that period. The government seems to spend its time finding ways to spend tax dollars rather than ways to cut back and be more efficient.

The main point I want to make this evening is that the load of the farmer is already heavy enough today, particularly in view of the government's agricultural policies. I ask the government to leave the farmer alone and to withdraw its proposals regarding a capital gains tax and recapture depreciation. Actually, this form of capital gains tax is simply a tax on inflation.

**Mr. Otto:** Mr. Chairman, I have been listening to the discussion on capital gains and I am inclined to agree with a good number of the statements that have been made. Before I talk about section 38 and capital gains, may I remind the parliamentary secretary that the whole concept of capital gains has been derived from the Carter proposals made ten years ago when a buck was a buck. In those days it did not matter much whether a buck was made by way of salary or by way of a windfall. Capital gains were not taxed on the basis that it was either a windfall or something that was not earned and was not income, but Mr. Carter's idea was that a buck was a buck, a dollar was a dollar and should be taxed. This was before the "Nixonomics", and at that time this proposal seemed logical enough. Since a capital gain was to be regarded as an earning, it seemed very logical to all of us that it should be taxed, although some concession was made. However, this was all before August 15 of this year.

I suggest to the parliamentary secretary and to the minister that to go on debating this bill and each section of it as if nothing had happened does not make sense. It does not make sense to say that we are not going to distinguish capital gains because nothing has happened. I have put it to the minister and his parliamentary secretary that when we speak of capital gains and how they should be defined, we should consider that there are at least two different kinds of capital gain, the passive gain and the active gain.

If I am a land speculator and buy land that I know is going to rise in price because of the pressures of the community around me, and I contribute absolutely nothing to that land, and having bought it at \$5,000 an acre I sell it at \$10,000 an acre, this is a passive gain. It is a gain which no one contributed to making; no risk at all was taken. In such a case I think the capital gains tax should apply very strictly. In cases like this there should be no allowance made for capital loss since it would be very difficult to argue that this type of endeavour is in any way beneficial to the nation or to the nation's economy.

The same situation prevails when an insider in a corporation knows there is going to be a demand for shares and buys shares merely to turn them over again in two days, a week or a month at a profit. This also is a passive gain. It has added nothing to the economy, is speculative in nature and has to be treated very differently from a capital gain that comes to a taxpayer from investment in an active enterprise.

[Mr. Stewart (Marquette).]

On the other hand, if an investor buys shares in a corporation or in an up-and-coming enterprise, holds on to the shares and risks his money, or if the entrepreneur himself takes a gamble at great sacrifice to himself and then they make a dollar on the sale of shares or on the sale of an enterprise, money that they will probably immediately reinvest, then no one can tell me that this situation is the same as that of the land speculator. I think such investors should be treated differently from speculators.

The merging of capital gains into one grouping regardless of their effect on the economy or how desirable or undesirable they are is one of the mistakes the government has made. Whether it be agricultural policy or redevelopment policy, the government tends to make one clean sweep and merge them all. The fact is that there is a great difference between the two types of enterprise I have described and gains received from long-term investments.

In the United States, which has a record of capital gains, a distinction has been made between capital gains that are short-term and those that are long-term. A heavier tax is imposed on short-term capital gains than on long-term capital gains since these stimulate long-standing investment in companies, the growth of industry, and so on. But apparently we have not seen fit to make this distinction.

• (8:20 p.m.)

Having read the unacknowledged Gray report—I say "report" although it would not be acknowledged as a report—we find it deals with foreign investment and contains a plain recommendation that incentives will have to be given to Canadian enterprises and investors. We are now faced with the United States isolationist economic program. We may not have to worry about this foreign investment problem because I think all the foreign investors will probably go away anyway, back to the United States or elsewhere. We will still have to worry about how we will get Canadians to undertake new enterprise and invest.

This report and other acknowledged reports indicate we must give incentives. I wonder what kind of incentives the minister intends to give. Does he intend to give the Canada Medal? What are we going to give our entrepreneurs? Are we going to say to Canadians that they should leave their safe jobs as engineers, accountants or lawyers, take a risk and put their savings into enterprise? If we do, they will ask why they should. The logical answer is that they must take this kind of risk in order to make a gain.

**Mr. Gleave:** Mr. Chairman, I rise on a point of order. Would the hon. member permit a question?

**The Chairman:** If the hon. member wishes to rise to ask the speaker whether he will permit a question, that is not a point of order, as hon. members know. If the hon. member who has the floor will entertain a question, the hon. member may ask it.

**Mr. Otto:** Yes, Mr. Chairman.