

On clause 70.

**Mr. Turner (Ottawa-Carleton):** Mr. Chairman, there is an amendment which I want to withdraw, and I want to substitute another one. There have been several representations, particularly from the hon. member for Duvernay and the hon. member for Lac-Saint-Jean, with regard to the definition of "interest" under this exemption. Hon. members will recall that in the budget of May 6, 1974, reinstated by the budget of November 18, 1974, there was a deduction from income of the first \$1,000 of interest. The bill reflects that as net interest. The hon. member put it to me that this might militate against farmers who had borrowed by way of mortgage to finance their farm operations. He put it to me that gross interest would be a fairer way of calculating it. We have looked into this question very carefully and I now propose an amendment to clause 70, page 180 of the bill.

● (1620)

The amendment I am now proposing will have the effect of eliminating the requirement that the deduction in computing taxable income in respect of interest earned be in respect of net interest. As originally proposed, the interest which could be deducted was limited to the taxpayer's interest income minus the deductible interest expenses which he incurred in the year. This approach was proposed in order to eliminate the possibility that a taxpayer might simply borrow funds to generate interest or dividend income which would be free of tax, while at the same time deducting from his income the cost of borrowing the funds. While I am satisfied that there was good reason for this limitation, it has been drawn to my attention that it created serious difficulties for taxpayers who had borrowed funds for legitimate business purposes and were claiming the interest expenses on the borrowed funds.

The taxpayers most affected by this limitation were unincorporated businessmen, unincorporated farmers, members of partnerships and individuals who had borrowed funds to invest in rental housing. The effect of this limitation was to ignore the distinction between what I might term business borrowing and the income generated by what are essentially personal investments unrelated to the carrying on of the business. Under these circumstances, rather than penalize these taxpayers I am proposing this amendment which will ignore interest expenses for the purpose of the interest deduction and will give the deduction for the first \$1,000 of gross interest or dividend income.

The reason I have presented this amendment as being effective only for 1975 and subsequent taxation years is to ensure that taxpayers will have their 1974 refund cheques expedited. If a change were to be made effective for 1974, it would mean a delay of at least four weeks, and possibly longer, in sending out refund cheques. This delay would be caused because all the 1974 returns are structured to reflect the net interest concept. Every return which has been processed would have to be redone. The Revenue Canada computer would have to be reprogrammed and every cheque which has been written but not issued pending the passage of Bill C-49 would have to be redone. Having regard to the cost in time, money and inconven-

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ience it appears to be the wiser course to make this amendment effective for 1975. I therefore move:

That clause 70 be amended

(a) by striking out lines 39 to 49 on page 178;

(b) striking out lines 38 to 51 on page 180.

This has the effect of converting the definition of net interest to gross interest. I would like to withdraw from the table—I do not need to withdraw it from the committee because it has not been presented—the amendment I circulated earlier. Hon. members will now be provided with copies of the amendment I have just moved.

**Mr. Hamilton (Qu'Appelle-Moose Mountain):** Mr. Chairman, I wish to deal with matters which are not dealt with in the amendment.

**Mr. Bowden:** I, too, wish to deal with the clause as amended.

**Mr. Knowles (Winnipeg North Centre):** So do I.

Amendment (Mr. Turner (Ottawa-Carleton)) agreed to.

**Mr. Hamilton (Qu'Appelle-Moose Mountain):** Clause 70 embodies the government's proposal to encourage Canadians to save a little more. Provision is now made in the tax return for the deduction of up to \$1,000 in respect of interest receipts and dividends. This is, of course, a welcome concession, a welcome addition to the tax law. Then, again, there is the \$2,500 which is deductible in respect of registered retirement savings funds and the \$4,000 in respect of those self-employed.

The question I wish to put to the minister has to do with a wider difficulty which the world is facing in an economy which is increasingly capital-intensive. Projects undertaken today cost ten times as much as they did only a few years ago. As a result, economists are advising governments to adopt taxation measures which encourage more individuals and companies to save. These small concessions I have mentioned go in the direction of meeting this request by the economists, but they do not even begin to meet the tremendous demand for capital. In the field of energy-related enterprises alone, the United States will in the next 25 years be requiring between \$750 billion and \$1,000 billion. In Canada, a nation with one-tenth of the wealth of the United States, we expect to be called on to provide \$250 billion of capital to meet the needs of energy-related enterprises.

If we divided the number of years left in this century into \$250 billion, we would find that Canada has to raise \$10 billion a year to finance energy-related enterprises alone. This involves an important political issue. We have seen over the last 30 years a large segment of the industrial and resource field get into the hands of people in other countries who could provide the capital needed to enable development to take place in that period. Today, the investment needs in the field of energy alone are ten times greater.

There is no point our looking any more to the companies to which we could at one time turn for help in developing Canadian industries; demand for capital is now worldwide. We are dealing, as I say, with the need of \$10 billion a year for the energy sector alone, yet all the minister can