

Income Tax

[Translation]

Mr. Chrétien: Mr. Chairman, we had a lengthy discussion on the possibility of indexing capital gains tax in a previous debate in the House, and I explained to the hon. member why we did not want this indexing. I would refer him to my explanation which applies to the present situation. I think this would be a far too complicated system which could not be administered in a fair way in the present situation. Inflation is part of our modern economy, and we have to live with it. When I explained earlier in the debate the matter of the \$2,000 exemption instead of \$1,000, I discussed this problem at length.

[English]

Mr. Stevens: I think that what I am getting at would perhaps be clearer if we go through the effect of clause 3. As I read clause 2, a man might be given an option and the minister is saying that he will deem it as if it were a capital gain if, after he exercises the option, he holds the shares for a minimum of two years. Let us assume the man holds them for five years, roughly the time since the last valuation day, and, as I have said, there is a 61 per cent inflation in the country since that time. If the man has taken his \$10,000 investment—let us assume he made that investment—he needs \$16,100 to break even in buying power five years later.

All the government is saying to the employee is that if he qualifies, he only has to take \$3,050 in his income which will be taxed, which means that he will end up losing about \$1,000 of his buying power based on the \$10,000 cost of living figures.

My question has nothing to do with the earlier discussion which was a broader discussion as to why there was no indexing with regard to all capital gains. Here we are narrowed down to a very precise case. The man has bought his shares, the value can be established, he has to hold them for at least two years, so we are talking of a relatively long term. All I am asking is why can indexing not be taken into account to ensure that the federal government's greed for tax revenue will not result in that employee taking a loss in his capital buying power as opposed to an increase.

Mr. Chrétien: I would like to say to the hon. member that, according to the law as it stood before, the man was paying a full tax on the gain on the stock option. He would pay only half of it with this new scheme. We have gone a long way, but it is very difficult to satisfy the hon. member completely.

● (2112)

Mr. Stevens: Before we pass clause 3 would the minister give us an indication as to whether he will at least consider in his next budget, which hopefully will be very soon, giving some attention to capital gains with respect to these very specific things? He is trying to create the impression that he is improving the situation when in fact there is little improvement.

Mr. Chrétien: Mr. Chairman, the matter of indexing is constantly under review by the government.

Mr. Ritchie: Mr. Chairman, many income tax ideas which may seem good turn out not to be very good because the gain is assumed to come in one year only. By the time people pay their income tax, particularly in a period of inflation, as suggested by the hon. member for York-Simcoe, the situation is worse than if they did not get the money in the first place. When shares are sold can they be put into five-year annuities? Are there provisions for some spinning out of the tax?

Mr. Chrétien: Mr. Chairman, a person can buy income averaging annuities in order to spread out his income tax payable as a result of a gain.

Mr. Ritchie: It can be done?

Mr. Chrétien: Yes.

Mr. Stevens: Mr. Chairman, can the minister give us an indication of what he feels the passage of this clause will mean in terms of lost federal revenue? How much are we talking about here?

Mr. Chrétien: Mr. Chairman, we will be in a position to tell the hon. member when we know how many small and medium sized corporations take advantage of this measure. We do not have any specific forecast.

Mr. Stevens: I am not necessarily looking for a specific forecast, but I presume in the great in-depth studies which go on in the Department of Finance in preparation for the 1979 fiscal year budget and in the intensive study there is for the next five years there must be some estimate as to what will be the impact of this amendment and other amendments we are going to deal with in this bill. The minister cannot tell me he is proposing these amendments totally in the dark.

Mr. Chrétien: We have estimates on many measures, but I am informed that on this one we do not have an estimate because we do not think this measure will have a big impact on the revenue of the government.

Mr. Stevens: There has been a lot of rhetoric tonight from the minister about how desirable this clause is, but in actual fact it is not going to mean much to most Canadians.

Mr. Chrétien: It will mean a lot to small businesses, but in terms of the totality of the revenue of the federal government it will not mean much. I am not giving rhetoric; it is information I am very dutifully giving to the House of Commons.

Clause 3 agreed to.

On Clause 4.

[Translation]

Mr. Clermont: Mr. Chairman, the amount is increased in clause 4. Here is the amendment as described in clause 4:

"(3) That for the 1977 and subsequent taxation years, the employment expense deduction be raised to a maximum amount of \$250."

Mr. Chairman, I am surprised that the same percentage increase was not used for employment expenses as was used for losses on capital gains. For capital gains the deduction is