

affect taxpayers with incomes of over \$70,000. These measures will be phased in gradually and will be fully applied in taxation year 1990. In 1989 the effect will be that the basic personal surtax will be increased to 4 per cent and the high-income surtax will be effective at a rate of 1.5 per cent.

The government has examined the tax base to ensure that no Canadian bears a disproportionate level of income tax. This bill, consequently, includes measures to improve the fairness of the tax base.

Specifically, the bill introduces taxation of accrued investment on an annual basis. This way, taxpayers who invest in contracts which pay interest annually and those who choose to invest in compound instruments will be taxed on a comparable basis.

Measures are also introduced to ensure that lessors of property must recognize leasing profits on a current basis. This enables the government to ensure that the leasing industry bears its fair share of tax and curtails the use of leasing as an after tax financing mechanism.

While these new measures will limit the tax advantages of leasing property, they will not affect the other desirable attributions of leasing. In particular, these measures will allow those people who lease property to claim capital cost allowance as if they had acquired property directly.

[English]

In considering a further set of changes to this bill, we must remember the major role played by the personal income tax system in managing the overall spending of the government. It does this by providing for taxation, at progressive rates, or most types of government assistance received by individuals. Therefore, an important change in personal taxation is directly related to the maintenance of the social safety net.

● (1410)

The purpose of this net, as we all know, is to assist those in most need, not to subsidize those with high incomes. All Canadians over 65 are eligible for old age security payments, regardless of their need for help or the level of their income. All families with dependent children under 18 years of age are eligible for family allowance payments. That will continue.

Because these programs are available to all without any prior means test, they are, in our opinion, considered universal. The fact that individuals must apply for them before receiving them and that they are subject to income tax has never been considered to limit universality.

The measures in this bill respect the universality of these programs. They build on the fact that they are already subject to income tax. They will ensure that benefits are targeted more effectively towards those in need. Over three years benefits from these two programs will become repayable at a rate of 15 per cent of individual net income over \$50,000. The threshold will be about \$74,000.

What we have to understand, and what Canadians have to understand, is that these provisions will not affect the vast majority of pensioners or families. They will not affect those who are solely or primarily dependent on old age security. In

[Senator Simard.]

fact, only 4 per cent of those receiving old age security payments will be affected. Fewer than 2 per cent will have the full amount recovered. While 14 per cent of those receiving family allowance payments will be affected, fewer than 10 per cent will repay the full amount.

Those who will be affected by this measure are to be congratulated for having worked hard and for having prospered.

I must also repeat what the Minister of Finance said a number of times, that the threshold, which is already indexed on the same basis as other elements of the income tax system, will be reviewed periodically to ensure that it is still at an appropriate level. He has pointed out that threshold reviews have been made by the government a number of times since 1984, and that these reviews have never resulted in unfavourable action for those affected.

By moving to a more progressive system, the government is ensuring the continued existence of these programs for taxpayers who need help. By assuring the continued viability of these social programs, this bill makes an extremely important contribution to the maintenance of our social safety net.

[Translation]

Regarding the changes affecting corporate income tax, Bill C-28 also includes significant changes in the corporate tax system. We believe it is important to ensure that all large corporations pay tax and contribute to debt control. Therefore, effective July 1 of this year, a tax on large corporations was introduced. This tax, which will be levied at a rate of 0.175 per cent on capital employed in Canada in excess of \$10 million, will ensure that all large companies pay federal taxes and thus contribute to national debt reduction.

We expect that some 3,600 corporations which account for approximately three-quarters of total corporate capital employed in Canada, will be subject to the tax. Together with modifications to the existing corporate surtax, this measure is expected to raise \$965 million in additional federal revenue in its first full year of application.

Honourable senators, this bill also contains a number of measures dealing with securities lending and dividend rental arrangements. These measures are designed to facilitate the efficient operation of Canada's capital markets while eliminating the revenue loss arising from certain tax motivated dividend rental arrangements.

The new rules ensure that a securities loan will not be regarded as a disposition of the security and will therefore not give rise to gains or losses for tax purposes. They provide that the lender of a share will be entitled to trade compensatory payments received from the borrower of the share as dividends. To offset the costs of these benefits, such payments will be non-deductible to the borrowers.

However, where a person borrows shares only to take advantage of the favourable tax treatment afforded any dividends paid on the shares while they are borrowed, a borrower will now be considered to have entered into a dividend rental arrangement. The borrower will therefore be denied the divi-