

*Income Tax Act*

tax Act and to make certain provisions and alterations in the statute law related to or consequential upon the amendments to that act—Mr. Benson—Mr. Honey in the chair.

**The Chairman:** Order, please. House again in committee of the whole on Bill C-259, to amend the Income Tax Act and to make certain provisions and alterations in the statute law related to or consequential upon the amendments to that act. When the committee rose last evening section 109 was before the committee. Section 110 has been grouped with section 109 for the purpose of debate.

On clause 1—section 109: *Deductions permitted by individuals.*

**Mr. Burton:** Mr. Chairman, last night when the committee rose I had pointed out that in the Carter Report on taxation there was discussion of the principle involved in comparing a system of tax exemptions with a system of tax credits in order to provide some relief for taxpayers, particularly those at the lowest end of the income scale. I mentioned that the Carter Commission pointed out quite clearly what the difference was between tax credits and tax exemptions. I quote:

A tax credit involves a reduction in taxes of a given amount, while an exemption grants a reduction in taxable income.

Of course, the report, points out that quite obviously the application of a tax exemption has a different impact from the application of a tax credit. The Carter Commission, in its report, went on to draw a conclusion from its studies of this subject. I quote again from the report at page 180, volume 3:

We believe that the primary purpose of the additional allowances for dependants, working wives, educational support, and so forth is to reduce the tax burden on low income families whose ability to pay is most heavily affected by the additional non-discretionary expenses resulting from each of these circumstances. We therefore regard the use of tax credits as a more efficient means of achieving this objective. Accordingly, we have recommended the adoption of tax credits in place of exemptions to reflect the effect of family responsibilities upon ability to pay, and have used the tax revenue gained from this substitution both to increase the effective allowances to low income families and to reduce marginal tax rates below what they would otherwise be.

So, it is quite clear, in terms of the principle put forward by the Carter Commission, that the commission opted for a tax credit system. This, of course, leaves open the question of the mechanics of the application of this principle. There are many variables which could be introduced in applying this principle, but certainly in terms of the principle itself the commission came out very clearly in favour of the principle of tax credits. The commission went on to discuss, at page 183 of the report on taxation, the effect of tax credits if substituted for the present tax exemption plan:

The credits that we propose for dependants are equivalent to a liberalization of exemptions for lower income families and a tightening of upper income families. For families with income under a certain level, the proposed system of credits would reduce taxes from what they would be with current personal exemptions.

Possibly this explains why the government has been so reticent about introducing tax credits into Bill C-259. I want to acknowledge, of course, that in any tax structure a system could be devised based on either tax credits or tax exemptions that would, at any given point of time,

produce an equivalent amount of dollars for any given income level. It is simply a matter of mechanics to arrange a tax system based either on tax credits or tax exemptions which would provide for a certain income level. Let us call it income level one—X dollars of tax. Then this could be arranged for income level two, the next higher level of income, for which the amount of dollars in tax collected would be X plus Y dollars of tax. This could be applied to any situation in any given circumstance, but that of course involves a static concept of taxation. That is certainly not the type of world in which we live. We live in a very dynamic world in which the systems we attempt to organize and establish must be designed so that they are flexible enough to accommodate change and so that it is possible to adjust to any new condition or new circumstance as they arise.

I would also acknowledge that with the tax exemption system it is possible to make a change which would have an impact similar to a change to a tax credit system. This could be done by simply knocking off the lowest rate of taxation and then increasing the exemption level. This is fine if it can be done, but I suggest it is much more difficult than might be imagined to introduce such a system into practice. Certainly it is very difficult politically, I think, to introduce such a system because there are very obvious difficulties. Any government, regardless of its political persuasion, has to face the problem of persuading people that they must or should pay higher taxes. Certainly, if there is the appearance of a higher tax level, even the type which I described, this is not very acceptable to anyone.

So the method adopted by the government when it wanted to make some improvement in the situation of people at the lowest end of the income scale was to increase exemptions. This in some ways is much easier to administer and in some ways also it is easier politically, at least under given circumstances. But I suggest there will be tax changes in the future and, by the very nature of our economy, a tax system must be designed so that it can accommodate to change both up and down. Very often the general trend has been in the upward direction, but certainly I think now and at given times in the future our taxation system will be subject to either increases in taxes or decreases in taxes. Thus, it is very necessary that we design a tax system that is both flexible and equitable. This is my concern, and the concern of many of us, in taking a look at the plan as it is proposed by the government.

• (3:10 p.m.)

I should like to examine briefly the whole idea involved in making changes in exemptions, whether it is now or at some other point in time. Basically, it seems to me that the purpose is to provide help to the lower income people in particular and also to provide one means of stimulating the economy. In terms of the help that is provided to lower income people, I think it has been pointed out already in this debate that it is questionable whether it is of any real value. Certainly it has been pointed out that if there is an increase in basic exemptions from \$1,000 to \$1,500 per person on a \$2,000 gross income the tax saving from the increased exemption is only \$33, whereas if a person has an income of \$100,000 the tax saving is \$397.