

Income Tax

plans as a result of divorce or judicial separation. We must ask who has paid it, who is being taxed and who has been taxed.

I will repeat one of the big complaints, and that is the complexity of the Income Tax Act, as well as the cost and difficulty of compliance. Now, in order to aim at a wee sparrow or even a smaller bird, there is trotted out a legislative blunderbuss. They are very complicated provisions. Either the individual requires the help of a good insurance agent who will have gone through quite a period of indoctrination in order to know just what is what or he or she may unwittingly step into a tax position. For what purpose? I suggest that the proposal was disreputable in the first instance; it was disreputable to start. There is nothing which legitimizes its antecedents. Now we have page after page of amendments by the Government which are incomprehensible to 99 out of 100 people. The Government is insisting that they be included in this particular Bill. Why? I am wondering whether the Government is reduced to the position where it has to go out and sweep the streets in order to collect some horse droppings as a possible substitute for fuel; perhaps it will be a source of biomass.

The tax system is incomprehensible. The Minister was not at the Committee this last summer. I do not like to refer to the officials who are before him because they are part of the system, but they were not present this summer either when group after group complained about the complexity of the income tax law. Frankly, one can no longer assess oneself outside of the fact that one would be drawing a salary, would have a wife and no other dependants; then if one had no income from other sources, one might be able to complete a return. Anything beyond that and the individual has to go to an accountant for tax services. If one is in business, owns property or is a farmer, then he or she definitely has to seek expensive tax advice.

That defeats our system. The very complexity encourages evasion. I am not referring to avoidance; I am referring to evasion, such as people working at a second job and saying: "No pay cheques; pay me in cash once a week". These could be service jobs such as plumbing, paper-hanging or painting done after hours outside regular employment. There is a total subterranean, shall we say, industry right across the country.

I know Hon. Members on the Government side are not interested in this. Perhaps they are engaging in some of it themselves. Some of them may be moonlighting. Money from moonlighting is never accounted for. But it arises either because the rates of tax are too high or tax reporting is too complex. These are the only reasons for moonlighting, aside from the funds gained, of course. Surely Hon. Members opposite, whether they are new here or have had some exposure to the income tax provisions, know this. I do not like this particular provision and I intend to vote against it. It is simple; we do not delete, we just vote against.

Mr. Cosgrove: Mr. Chairman, the Hon. Member raised a question concerning the rationale for the amendments to the Act which deal with annuities and life insurance and concerning the reason for the changes. Albeit that we may be adding to the length of the Income Tax Act, it is designed to serve Canadians by putting a tax on income. In fairness to all

Canadians, all sources of income should be considered as legitimate ways for the Government to realize resources to meet its obligations. It was an analysis of where income was realized by people, how it was generated, and whether the pre-1980 tax system which is presently in place treated all sources of income fairly and therefore all Canadians fairly.

Before 1981, annuities were taxed only as the income was received by the recipient annuitant in payments. This resulted in taxes being paid roughly at the same time as receipt or accrual. We know that in some deferred annuities payments are put off until some time in the future to give the person the advantage of not paying tax on the income earned by that invested money in the interim. Therefore, such deferred annuities were put in an advantaged position. There was no tax payable until some time in the future; and if one deferred the tax long enough into the future, no tax was payable. Therefore, people who took advantage of it were not contributing toward the revenues of Government to serve all Canadians, themselves included. Thus they had an advantage.

Let me give a specific example of the tax advantage. Perhaps it did not matter when interest rates were 5 per cent and is indicative of why the Government is now moving at this time. Let me take the example of \$100 being put into a bank account for 20 years and compare it with the same amount being put into an annuity for the same period of time. The bank account would accumulate interest annually for 20 years. For the \$164 deferred annuity the after-tax cash would be less than \$20 more. While interest rates were at 5 per cent, there was not much advantage in the deferral scheme on annuities, a little advantage but not much.

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Let us take a look at interest rates at 10 per cent and interest rates above 10 per cent that we have seen in the last few years which change that situation dramatically. Take the same amount in the same period. I am looking at after-tax cash in the bank account of \$100 at 10 per cent, which is \$265. But for the deferred annuity, the advantage for the same period of time becomes \$125 more. That is a comparison of the two options for investment and shows the inequity.

Mr. Darling: You cannot get the annuity money out.

Mr. Cosgrove: It shows that for the annuity \$125 more is realized, on which there is no tax levied. Therefore, there are no resources to the Government, as I say, during that period of time. The person who uses the bank account is at a disadvantage to those people who use professionals and the device of deferred annuities.

What does that mean in terms of revenue drain if we look at the actual experience in those years in which interest rates were remarkably higher than our previous experience in this country? The revenue drain becomes significant—horse droppings possibly to the Hon. Member opposite but to the tax system it is \$75 million.

Mr. Lambert: Nonsense.