

*Taxation Reform*

tions which have been raised most often. I should like to comment now on two or three of the most popular questions.

In my discussions with Canadians across the country I have been told the same story over and over again by taxpayers in the middle income group. They do not mind paying a little more in taxes if in doing so they will lighten the load for those with low incomes. But they want to be sure that those who are better off than they are will be pulling their weight.

Naturally, they are concerned when suggestions are made that taxes will go up more for those with middle incomes than for those in the upper income group. Comments like these are misleading. They ignore completely the effect on the upper income group of bringing capital gains into income.

When estimating the effects of the white paper proposals, we used a carefully constructed sample of 100,000 personal income tax returns from 1967, with adjustments to reflect the number of 1969 taxpayers, their incomes and tax rates. This sample is representative of the whole tax-paying population. By calculating the tax for each of those returns under the white paper proposals, we were able to derive the over-all revenue and incidence effects. With capital gains, we relied on the relationship between dividends received and capital gains, and to some extent on United States experience. But we believe the results are as good an estimate as can be derived.

The computer runs show the average increase or decrease in tax for taxpayers in various income brackets when all of the changes, including capital gains, are taken into account. They show that taxpayers now in the \$10,000 to \$15,000 income group would pay average increases in income taxes of \$210. This includes both single and married taxpayers—all taxpayers. In the \$15,000 to \$20,000 group the average increase is \$420; between \$20,000 and \$25,000, it is \$445; between \$25,000 and \$50,000, it is \$870, and for those with incomes over \$50,000, the average increase would be \$1,820. So, when we include the provisions concerning capital gains, we find it is a progressive tax up the scale; there is no upward movement affecting the middle income group particularly. There may be individual taxpayers, not realizing capital gains, who would not face as large an increase, but the upper income group as a

whole would pay their share of the cost of the tax relief proposed for the low income groups. Let me say that the wealthy understand this. They have told me so—in Calgary and elsewhere.

**Mr. Woolliams:** They told you in Calgary, all right.

**Mr. Benson:** I would also point out that the reduction in the top rate from 80 per cent to 50 per cent would cost some \$40 million while the revenue from capital gains, which will be derived largely from the same group of people, would amount to some \$340 million. This confirms the data produced by the computer runs which I have just mentioned.

• (12:20 p.m.)

Taxpayers have also asked about the proposal that certain assets be revalued every five years. In view of some comments which seem to assume that all assets would be taxed every five years, it should be made crystal clear that this proposal applies only to the shares of widely-held Canadian corporations—the shares which give rise to half-rate gains. The proposal does not apply to any other class of asset. In particular, it would not apply to the shares of closely-held private corporations. The shares of public companies are readily marketable. Therefore, taxpayers can realize their gain or loss fairly readily at the time of their own choosing. In a manner of speaking, they would be on a voluntary tax system. The government feels that some limit to this type of postponement is desirable in order to distribute the tax burden fairly between those who own such shares and those who do not.

A revaluation every five years would reduce the lock-in effect. By "lock-in", I means the pressure on taxpayers to hold on to assets all their lives to avoid tax at the time of sale. This might interfere with the free working of the capital market. Periodic revaluation also has some technical advantages that are detailed in the white paper, and I refer hon. members to them.

We recognize that it is a new idea to Canadians, and that those who own shares in widely-held corporations may need some time to grow accustomed to it. Here again this is a matter that I think will receive a great deal of discussion, and rightly so, before the committee of the House.

I might also say that one of the difficulties that arises when one moves into the taxation