Income Tax Law (No. 3)

The Acting Speaker (Mr. Boulanger): Order. The hour appointed for the consideration of private members' business having expired, I do now leave the chair until 8 p.m.

At six o'clock the House took recess.

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

[*English*]

STATUTE LAW RELATING TO INCOME TAX (No. 3)

Hon. John N. Turner (Minister of Finance) moved that Bill C-193, to amend the statute law relating to income tax (No. 3), be read the second time and referred to committee of the whole.

He said: Mr. Speaker, we are now dealing with Bill C-193 which involves many important matters relating to personal income tax and a good many corporate tax items and I should like to comment on some of the highlights of the bill for the benefit of the House. There are many proposed amendments to the Income Tax Act in this particular bill which will be of major significance to individual taxpayers in this country. Indeed, every person who has taxable income in Canada will benefit by the changes contained in this bill.

[*Translation*]

First of all, I should like to draw the attention of the House to the proposed increases in personal exemptions: the basic exemptions for single persons will be increased from $1500 to $1600, and for married persons, from $2850 to $3,000. This will mean, therefore, that single persons who earn less than $1700 a year, or in the case of married persons, $3,100, will have no income tax to pay. The benefits of these higher exemptions would apply to all ratepayers. In addition to higher exemptions, the bill contains provision providing for a 5 per cent decrease in the basic federal income tax which will not be less than $100 and more than $500. This provision will not only reduce income tax; it will also concentrate the reduction where there is greater need for it, that is for the small or medium wage earner.

[*English*]

The combined effect of these two proposals is to relieve every low and middle income taxpayer of any increase in his income tax due to inflation which has occurred since the introduction of tax reform. This, as I have said a number of times in the House, corresponds to the thrust of the government in attempting to meet the rise in the cost of living, where the primary factor is an imbalance between the supply of agricultural commodities and other world commodities and the very strong worldwide demand. The government seeks to increase the supply of these commodities and at the same time increase the disposable income of the average Canadian by proposing a reduction in his personal income tax, by raising exemptions, raising the old age pension, proposing the raising of family allowances, eliminating the sales tax on all food and drink except alcohol, eliminating sales tax on children's clothing and children's footwear, and reducing tariffs on about $1,400 million worth of manufactured and agricultural products.

Let me illustrate how some typical Canadian families will benefit by these two measures. For a married couple with two young children, with the breadwinner earning $5,000, the total tax will be reduced by $137. This represents a 47 per cent reduction in the tax which would otherwise have been payable this year. This is equivalent to the taxpayer having received a wage increase of 3.6 per cent. If the same family had earned $8,000, the total tax reduction will be $141, equivalent to a 2.4 per cent annual increase in wages. If this same taxpayer had an income of less than $4,438, he will pay no federal income tax whatsoever. These computations have been made for residents of provinces having the lowest provincial rate of tax. For other taxpayers there would be minor differences in the calculations.

These measures will leave in the hands of Canadians an additional $1,300 million, of which about $900 million, or 70 per cent, will be concentrated in the hands of people with incomes of less than $10,000. Over 750,000 Canadians will pay no federal basic income tax this year as a result of these proposals. I should like to point out also that these provisions take effect from January 1, 1973, and continue indefinitely; that is to say, they will remain features of our income tax law unless parliament sees fit to make changes.

The second matter I wish to mention is one of great personal concern and one which touches every Canadian, the matter of the cost of living. I dealt with this earlier today. Our tax system is based on a progressive rate schedule. This means that as a person's taxable income increases, he pays a greater percentage of his income in taxes. This is basically a fair system and one which is used in most advanced countries. However, inflation causes a nominal increase in wages without there being a real or true increase in purchasing power. Hence, the interaction of inflation and the progressive rate schedule may cause a person to pay an increasingly larger percentage of his income in taxes even though his real income has not increased.

● (2010)

Over the years, parliament has raised the basic exemption for individuals on several occasions, often in response to the fact that any amount of inflation, be the rate great or small, erodes the value of the dollar. But changes in the level of exemptions are only a partial answer to this problem even if those changes are kept current. This is so because inflation hurts not only the taxpayers at the lower end of the economic scale but also those who are in the middle and upper income ranges. For this latter group of taxpayers, inflation can sweep an individual's income up into a higher tax bracket, which means that a higher marginal rate of tax will be applicable. Therefore, in order to alleviate fully the problem of inflation and the progressive rate schedule it is necessary not only to raise the level