

*Income Tax*

Looking at the difference between Edmonton, Yellowknife and Inuvik, a family living on an income of \$30,000 in Edmonton would need in Yellowknife an income of \$45,000, and in Inuvik an income of some \$60,000, to achieve the same standard of living.

Now enters the tax system! In Canada we have a tax system which contains a rapidly progressive way of computing taxes. A person does not have to make too much money before his marginal tax rate, federal and provincial or federal and territorial, reaches 40 per cent or 50 per cent. Let us take the difference between Edmonton and Inuvik now. If an employer in Inuvik gave an employee an additional \$30,000 a year to make his standard of living equivalent, and the marginal tax rate was 50 per cent, he would end up with only an additional \$15,000 a year, giving him \$45,000 in total. This would buy him the same standard of living as that of someone earning \$22,500 a year in Edmonton.

We can see very easily, therefore, that the unfair tax system results in a lower standard of living for Northerners. Incidentally, you might say the same is true of corporate income taxes. This is, evidently, grossly unjust and the system needs radical adjustment. I will refer later in my presentation, Mr. Speaker, to what the nature of the adjustment should be.

The inherent unfairness of the Northern taxation system has given rise to another phenomenon. Because it is impossible for an employer properly to compensate an employee in cash or in wages because of the great tax bite, the system of various allowances and subsidies has evolved. People did not really want this system but it was thrust upon them because of the tax system which we have in Canada. In particular, the Government itself, the people involved in the Government offices in the North, did not want it, but it was thrust upon them by directives from Ottawa.

The most common allowance or benefit for people in the North has been the subsidization of housing. Either a house has been provided to an employee at less than market rent, which, of course, would be, perhaps, two or three times higher than here in Ottawa, or cash has been advanced to help subsidize the payment of rent.

Another very common benefit which employees have been granted in the North has been vacation travel assistance, one or two trips per year for each family, either to Montreal for people in the Eastern Arctic, or Edmonton for people in the Western Arctic.

This has been a very common system of encouraging people to take up employment in the North. This system worked reasonably well until about 1978. At that time the Department of National Revenue, through strict interpretation of the Income Tax Act—and under a strict interpretation these benefits and allowances are taxable—started making threatening noises. It threatened to disrupt the system which had grown up, a system to which Revenue Canada up to that time had turned a very sensible blind eye. In 1978-79 the debate raged, so to speak, and I remember it was a very important issue in election campaigns in the North in 1979 and 1980.

In the 1980 campaign, the present Prime Minister (Mr. Trudeau), who was then Leader of the Opposition, said that if he was elected he would look into the tax system in the North

and bring about permanent changes. But as so very often happens, especially with the Government opposite, once the election was over and the Liberal Party had been returned to office, they forgot all about the promises which had been made during the course of the election campaign. This resulted, Mr. Speaker, in a public outcry at the betrayal which had taken place.

When the Minister of Indian Affairs and Northern Development (Mr. Munro) travelled to Yellowknife and Whitehorse, he was greeted there by people with placards complaining about the broken promises and the fact that the tax system there was to be made even more unfair. This public pressure resulted in a remission order with which most Members of this House are now familiar. The taxes which should have been collected with respect to certain housing and vacation travel allowances were to be rescinded. In a way, this was unfair because the same benefit, by different names, resulted in it either being taxable or non-taxable. Also travel benefits given for medical or educational purposes were deemed to be taxable, whereas those for vacation travel were deemed to be non-taxable. This remission order lasted from year to year and was renewed annually because of the continuing public pressure. It was renewed at the time of the last budget until the end of 1983.

The year-to-year suspense has made it very difficult for proper planning to take place. It was extremely difficult for labour negotiations to take place when they did not know whether the benefits and salaries, and all the other things which were up for negotiation at the table, were to be taxable next year or not. It was very difficult for labour negotiations to take place. In any event, after two or three years of living with this remission order we kind of got used to it. We changed some of the names of the various allowances to make them fit in with the wording of the remission order.

During 1982 the committee of public servants was established here. It had members from Treasury Board, Finance, Indian Affairs and Northern Development, Mines and a number of other Departments. It had been set up to look at the issue and try to come up with some permanent and sensible solutions. Unfortunately, not one Northerner was on the committee. There was one lady who had been born at Port Radium but who had left there when she was seven years old. All these people were from Ottawa. Policies are being made which affect people from far-flung places in Canada by people who know only Ottawa. Time and again Northerners requested permission to participate in the exercise but they were denied.

• (1150)

The result of the committee study was announced in a press release by the Minister of Finance (Mr. Lalonde) on December 2, 1982 and brought about the most bureaucratic, unintelligible system that could possibly be devised by the most twisted brains in the Department of Finance. The simple