

those granted in the United States, we see that in that country the basic exemption is \$750 for a single person and \$1500 for a married couple. Even if certain countries have already recognized the possibility of deducting, for income tax purposes, the interest levied on a mortgage, their basic exemptions were rather different from ours and I think that it is quite an appreciable benefit for low and average income groups.

According to the motion of the hon. member for Regina East, it must be pointed out that the principal residence is the home where the taxpayer is living and consequently, such a purchase must be considered as a personal expense.

As a rule, the purchase of a house is not different but more important than that of any personal item. However, such a purchase is usually the highest individual expense made by the taxpayer in his lifetime. We are conscious of that problem since we have put forward some incentives and steps to help the small investor build or buy himself a house, if he chooses to, it should be remembered that when the fiscal reform was introduced, we of the Liberal party recognized the desirability of encouraging home ownership. On the other hand, we did not feel that the best solution lay in departing from the basic rule of deductibility of above-mentioned personal expenses.

The Income Tax Act therefore provides two major incitements to home ownership. The first consists in allowing a taxpayer, when he sells his home, a tax-free capital gain. The second provides for continuation of the rule whereby such economic advantages accruing to him because he owns his home are not included in his income. This advantage can be considered as a return on invested capital, i.e. the value of his home. It could also be considered as income not received because he did not invest his money otherwise.

Incidentally, it is useful to note also that in other countries, especially in Great Britain, presumed income was once added to the taxpayer's income.

We should bear in mind whenever we deal with the Income Tax Act, the principle of justice whereby all taxpayers, whoever they may be, get the same treatment, as regards their participation to any government's budget, especially the federal government's.

If two individuals have \$20,000 each and one of them decides to invest his \$20,000 in bonds or something that would yield an income while the other one decides to use his \$20,000 to buy a house, the result would be that the one investing in shares would contribute to the development of Canadian economy and the creation of employment, the one investing his \$20,000 in interest bearing bonds would pay tax on the interest he would get, while the person investing in property, would see the mortgage interest he would have to pay, if there were a mortgage, deducted from his taxable income tax and that would be unjust perhaps in the case of the tenant as compared with that of the owner. One could also say this, should one wish to carry the argument further: if we grant such an exemption to owners, we should also grant one to the tenant who pays rent.

The Progressive Conservatives very often complain, Mr. Speaker, over the complexity of the Income Tax Act; it

Income Tax Act

would be still more complex if we followed such a method.

If the individual investing \$20,000 in something other than personal property and the one investing in the property, would sell after 10, 15 or 20 years the assets they have acquired and both make a \$10,000 profit, the home owner would have no tax to pay on capital gains since the law provides for a special exemption on the taxpayer's residence, whereas the individual investing in other areas would have to pay capital gains tax.

Then perhaps there would be a different status between tenant and owner and since the Income Tax Act is aimed at equalizing the economic force of Canadians in the field of taxes, this proposal would hardly be acceptable. The implementation of this proposal could be technically detrimental to those investing in areas other than real estate.

Moreover—and this is a rather important point—the adoption of such a proposal would favour high income taxpayers in three different ways. One thing we do not want now is to be partial to the rich at the expense of the not-so-rich.

First, if an individual's earnings do not allow him to save the down payment for a house, obviously he could not take advantage of this provision.

Second, if an individual owns his own home but has a taxable income lower than his mortgage interest, he would not be entitled to the full deduction.

Third, because of the escalation rate of personal income tax, a deduction is more valuable for a taxpayer whose maximum rate is currently about 50 per cent than for another whose maximum rate is 10 or 12 per cent. One could also point out two other aspects of that proposal, hypothetical ones, of course, but having some importance, since the proposal itself is hypothetical in that sense that if it were applied, one could wonder about the results. There might be results which the mover perhaps has not considered.

• (1730)

First, such a system could boost mortgage interest rates because house buyers might be ready to pay higher rates since they could deduct interests from personal income tax. Therefore, a problem could appear.

Second, one can assume that such a system would incite people to mortgage their houses in order to accumulate funds for other personal expenses, since they could not deduct from their income tax the interest paid on the money borrowed to buy personal items. Which means that instead of borrowing, for instance, to purchase a boat or any other object that people now use daily, someone could say: I am going to borrow on my property, serving as a guarantee, since I am entitled to deduct the interest that I shall pay on the mortgage, and that money I will use not for amortization of the price of a property, but for personal purposes, for instance, buying a boat or some other thing of that kind.

And that way I think we would be encouraging people to mortgage their houses to buy all sorts of other items which are not directly related to production and which could not constitute a source of income.