

The Budget

[*Translation*]

On a priority basis, the Minister of National Revenue will be taking the following measures to step up his department's efforts with regard to taxes that are owed. For example, the interest rate charged on over-due taxes will be increased by 2 percentage points.

[*English*]

Next, we are announcing steps to make the tax system more fair.

The tax deferral advantages for investment income earned by private holding companies will be taken away.

The current film incentive will be changed. Rather than being a tax shelter for high income investors, a new refundable credit will be provided directly to producers of Canadian films.

Those who earn business or professional income have a tax advantage over many other Canadians. Because of special rules that allow them to select their own year end for tax purposes, those individuals are given an ongoing tax deferral. That advantage is being eliminated subject to a 10-year transition period.

We are concerned that the rules regarding the resource allowance for the mining and petroleum industries are not working as originally intended. We will be meeting with the provinces and both industries on possible improvements to or replacement of this allowance.

We will be evaluating the entire R and D tax incentive program to ensure its effectiveness.

While this review is under way no bank or other financial institution will be eligible for these incentives related to information technology.

[*Translation*]

Concern has been expressed about tax advantages that may exist as a result of the establishment of trusts, trusts which largely benefit high-income Canadians.

Therefore, for foreign trusts—and indeed for taxpayers who invest in foreign holdings generally—we are introducing more stringent reporting requirements.

Second, this budget eliminates all tax advantages that flow from the establishment of family trusts. That involves eliminating the potentially unfair income splitting advantages that exist. And we are repealing the previous government's amendment that allowed deferral of the 21-year rule.

[*English*]

Providing tax assistance to encourage Canadians to save is an essential part of our retirement income security system. We are not prepared to compromise the integrity or the purpose of that system. But equally, we must ensure that the benefits of tax assistance are shared fairly in these times of restraint, while also adhering to the key principles and purposes of pension reform.

• (1730)

One of those principles is that tax assistance should be provided for contributions to registered saving plans based on earnings up to two and one-half times the average wage and no more. Therefore, we will be reducing the upper limit on deductible RRSP contributions to \$13,500 for 1996 and 1997. That limit will then be allowed to progressively increase to \$15,500 by 1999. The maximum pension limit for registered defined benefit plans will be frozen at its current level through 1998.

We are also introducing measures to improve the overall fairness of this system by tightening some existing provisions. For example, beginning in 1996, the over contribution allowance for RRSPs will be reduced from its current \$8,000 to \$2,000.

[*Translation*]

Our effort to ensure an effective and fair system of taxation does not begin—or end—with this budget.

We want to make absolutely clear our ongoing commitment to tax-reform.

If we must constantly scrutinize government spending—as we must—then let it be clear we must also constantly scrutinize the fairness and effectiveness of the tax system.

[*English*]

Despite the size of the savings we must secure, this budget focuses almost entirely on reducing the spending of government, not increasing taxes for Canadians. That being said, spending cuts themselves get us very near to our targets, but there is a small gap we must close. Therefore, we have found it necessary to do four things.

First, the existing large corporations tax will be increased by 12.5 per cent effective immediately in order that big companies contribute more to help bring the deficit down.

Second, we are raising the existing corporate surtax from 3 per cent to 4 per cent.

Third, effective midnight tonight, the federal excise tax on gasoline will be increased by 1.5 cents per litre, raising \$500 million annually. This will restore total revenue from all federal excise taxes to approximately the level they were in 1993–94.

Finally, we are announcing today a temporary tax on the capital of large, deposit-taking institutions, including the banks. That tax will be in effect until October 31, 1996 and will raise about \$100 million.

Taken together, the revenue measures in this budget are far overshadowed by the size of the spending cuts we have made. For every \$1 raised in new tax revenue over the next three years, there are almost \$7 in spending cuts. Furthermore, in this budget, like last year's, we are not increasing personal income tax rates one iota.