Taxation Reform

• (12:10 p.m.)

I mentioned earlier that we are following a new procedure in referring the reform proposals to a committee of the House. This procedure will permit interested Canadians to put forward their views concerning the proposed Canadian tax system and to bring to the attention of Parliament and the government particular situations in which for some reason the proposals might have anomalous results.

The white paper has also been referred to a committee of the other place. I hope that the two committees will co-ordinate their activities so that their programs for hearing witnesses do not conflict. I propose at some appropriate stage to bring in an amendment which, if accepted, would enable the committee to obtain staff as necessary to assist them in carrying out their examination of these tax proposals and also to study the numerous briefs which, no doubt, will be submitted.

We believe that the proposals outlined in the white paper would produce a good tax system, a system substantially better than the one we now have. Indeed, we believe that it would be a system better suited to the Canadian situation than any of the systems in other countries. But we do not suggest it is a perfect system. If Canadians, including members of the opposition, can put forward ways in which these proposals could be improved, the government will be quick to adopt them. What we are bringing forward, and I have said this before, are proposals for tax reform. We are in no way bound by these proposals; indeed, I have made it clear from the day they were brought forward that we want hon. members of this House and all other Canadians with suggestions to offer, to make them known for consideration.

I now wish to bring to the attention of hon. members two of the modifications which we are prepared to make. I think it is important to clear up a couple of the situations dealt with in the white paper. The first concerns a modification of details in the proposals concerning the application of capital gains tax to bonds and mortgages. In the white paper, it was recommended that if the value of a bond or mortgage held by a taxpayer was less on valuation day than the cost to him of that investment—or his amortized cost, if he bought at a discount—the recovery cost or amortized cost would not be taxed. As originally phrased, this rule would only have applied to bonds held on white paper day. It is now proposed that the same treatment be accorded to bonds and mortgages purchased between November 7 and valuation day. This would ensure that a market dip extending through valuation day would not cause taxpayers who buy bonds and mortgages now to pay tax on more than the yield they had expected at the time of their purchase.

[Mr. Benson.]

Some hon. Members: Hear, hear.

Mr. Benson: This should remove an uncertainty which might otherwise have complicated the marketing of new bond issues and bond trading between now and valuation day.

Mr. Stanfield: Better market those bonds.

Mr. Benson: Would you like to hear about the success of the new Canada Savings Bonds—the largest amount ever raised in an issue?

Some hon. Members: Hear, hear.

An hon. Member: And the highest interest rate.

Mr. Benson: The second example concerns dividends passing from a gas, steam or electric utility company to its parent company. At present, 95 per cent of the tax paid by these companies on their utility profits is turned over to the provinces, and the white paper proposes that it all be turned over in the future, that is, 100 per cent. Consequently, there would not be any net federal tax for which shareholders could be given credit. If the proposals were applied literally, there would be a federal tax on a dividend from a utility company to its parent, even though the provinces had received a tax of 48 per cent on the utility profits. This would be adjusted to 50 per cent when the 100 per cent of the tax is paid over. Individual Canadian shareholders of the parent company would receive credit for their share of this tax. However, the cash flow of the company would be reduced and shareholders who were either under a pension plan or not resident in Canada would not receive credit for their share of the tax. The government is prepared to remedy this situation. We would provide that a parent company can receive tax-free a dividend from a subsidiary that is a gas, steam or electric utility provided the dividend is paid out of profits which have borne the tax we are turning over to the province.

Naturally, these are not the only questions which have been raised with me in the past three weeks. Indeed, they are not the ques-