

Income Tax Act

as brought out fails completely to reform federal tax activities. I think it fails to reform tax sharing and integration with the provinces and it fails to provide greater equity for middle income taxpayers. It continues to tax the poor and it fails to apply a tax credit rather than exemption systems to assist more effectively low income Canadians. It fails to simplify the language and draftsmanship of taxation. No attempt is made to reform tax collection under this legislation.

In dealing with the estate and gift tax as I see it, the decision of the federal government to get out of estate and gift taxes entirely as of December 31, 1971, has been strongly criticized as irresponsible and unfair to the provinces, a danger to orderly taxing Canada and another act in favour of the privileged at the expense of middle income Canadians.

Mr. Mahoney: That is the position of the government of Manitoba. Is it that of the Conservatives also?

Mr. Murta: The proposal means an immediate loss of provincial revenues and further tax competition between the provinces. Last year the federal government paid out \$60.4 million as their share of the federal estate tax. Seven of the provinces receive from Ottawa 75 per cent of this tax when collected. Ontario, Quebec and British Columbia have their own succession duties. The removal of this source of revenue for seven provinces will be detrimental to all provinces, and all the provinces are complaining.

The former Premier of Ontario, Mr. John Robarts, has said that the federal decision to eliminate death taxes puts the provinces in the difficult position of having to maintain a tax on wealth until the capital gains tax system matures. He said:

Far from reform, this approach simply encourages and perhaps makes inevitable internal balkanization and tax competition between competing tax jurisdictions—surely just what any program of true reform should be trying to avoid.

At the finance ministers' conference in June and at the premiers' conference in July, the provinces appealed to the federal government to amend this proposal to remove estate and gift taxes on December 31, 1971. So far, the Minister of Finance has refused. I say "so far" because I have not had a chance to see the amendments. The effect on the provinces is that the validity and success of this tax reform bill is very much compromised by the lack of comprehension and co-operation of governments toward the tax problems and functions of the provinces. The government has, I believe, failed to introduce a tax reform measure that integrates the taxing functions and resources of the three levels of government. Also, it has reduced rather than expanded the taxing base of the provinces. Thirdly, it has put in doubt provincial revenues for the next five years.

The Canadian Manufacturers Association expressed its alarm about the lack of provincial co-ordination involved in the tax act in its August 26, 1971, brief as follows:

The effect of the proposed corporate and personal income tax rates depends greatly on the action which the provinces may take. With respect to personal income taxes, the impact on the individual which has been calculated and shown in the tables in the summary of 1971 tax reform legislation depends on the provinces imposing a tax of 30 per cent of federal tax. The proposed reduction in corporation income tax rates depends on the provinces not

changing their corporation income tax rates. The intended 33 1/3 per cent tax credit with respect to dividends from taxable Canadian corporations will only be given full effect if the provinces adopt a corresponding credit.

Some of the provinces have expressed concern about the proposed elimination of federal estate and gift taxes on January 1, 1972. They have indicated that this proposal will not only create inequities between the taxation of existing wealth accumulations and future wealth accumulations but will thrust the burden of readjustment, if provincial revenue loss is to be avoided, entirely onto the provinces.

All these factors require co-ordination of federal and provincial tax policies and make an assessment of the economic impact of the proposed legislation difficult. At the same time, we are concerned that the intention of the Ontario government to give tax credits for provincial sales tax and municipal taxes and not to provide the 15 per cent additional capital cost allowance introduced by the federal government in its December, 1970, budget, are indicative of a trend toward separate provincial tax administrations and policies. Such a trend is, we think, most undesirable and we urge the federal government to co-ordinate tax policy and administration with the provinces.

• (4:40 p.m.)

An area I would like to deal with at some length is the way the taxation proposals will affect farmers and agricultural producers not only of western Canada but of all Canada. Farmers and fishermen will continue to calculate income on a cash basis and retain special averaging provisions. The basic herd and straight line depreciation provisions have been phased out. Livestock farmers will be able to establish basic herds as of December 31, 1971, but no additions may be made to the basic herds after that date. When livestock is sold after December 31, the farmer may consider the sale as being out of the basic herd or the other herd, but the legislation requires that the sale reduces the basic herd when the total livestock on hand is less than the remaining total of the basic herd itself.

Straight line depreciation will continue to be available for assets acquired before the new system starts. Depreciation will be calculated on a diminishing balance system for assets acquired after December 31, 1971. Assets depreciated on a straight line basis subsequently sold for more than the original cost on valuation day will be considered to be a capital gain.

What this means in common terminology is that if a farmer traded in a John Deer tractor that was fully depreciated, on a new model, under today's system if his tractor were valued by the dealer as being worth \$7,000 trade-in, this amount would be considered as income and subject to capital gains tax. The farmer would then pay his going rate of income tax of 50 per cent on \$7,000, which in this case, depending on the farmer's income, would amount to at least another \$700 tax.

Capital gains tax will also affect the land value of farms. In the budget the minister trades a capital gains tax for the estate tax. At present any farm land valued at less than \$100,000 is free of estate tax. Under a capital gains tax, if the land increases in value from valuation day onward a farmer pays his going rate of income tax of 50 per cent on the increased value. He then has the privilege of averaging out his income over five years. However, this will still affect many farmers throughout Canada, particularly farmers in Saskatchewan and Alberta where 75 per cent of the estate tax was paid back to the state by those provinces. It will also affect many small farm hold-

[Mr. Murta.]