

The Budget—Hon. D. M. Fleming

necessity of recommending any further increases in taxation, indeed at a level of taxation which in relation to gross national product will be lower than in any year between 1950 and 1958.

Another fruit of our policies over the past year and a half is that during the coming year we shall be making very modest claims upon the capital market. Our net new borrowings, as I have already indicated, will be about \$210 million. This will greatly ease the problems of provincial and municipal governments and also of private industry in meeting their essential financial requirements in the domestic market. If other levels of government follow similar policies of prudent financial management they too should experience less difficulty than in any recent years in meeting their basic financial needs.

As I said in my opening review of economic conditions, we are anticipating a year of solid expansion and balanced growth. The main forces of inflation are quiescent. We still have, however, some slack in certain sectors of our productive capacity, though I expect to see these diminish as the year progresses. While I look forward to the day when we can undertake a measure of orderly reduction in our public debt, present circumstances do not, in my judgment, warrant an increase in tax rates in order to expedite the retirement of debt.

In the light of all these facts and prospects I am proposing no major tax changes in any fields this year. I shall, however, be recommending to the house a number of technical amendments to our taxing statutes, all of them designed either to remedy certain anomalies that have developed or to close certain loopholes for tax avoidance that have been discovered, or to meet certain other special circumstances.

INCOME TAX

In the income tax field there will be quite a number of technical amendments but I shall refer now only to those of general interest.

I am proposing an increase in the maximum amount of medical expenses that can be deducted in calculating taxable income. The existing limits have remained unchanged for some years, at the levels of \$1,500 for a taxpayer of single status, \$2,000 for a taxpayer of married status, and \$500 for each dependant but not exceeding \$2,000 in respect of these dependants. Over a period of years increases have taken place in the costs of medical care and in the accepted standards of medical care. The maximum limits that were once considered appropriate are increasingly found to impose hardships upon people of

moderate means. The new limits I am recommending are \$2,500 for a taxpayer who is single, \$3,000 for a taxpayer of married status, and \$750 for each dependant but not exceeding \$3,000 in respect of dependants.

I shall also bring forward an amendment to provide a deduction from certain items of income, such as superannuation, pension or death benefits, on account of the estate tax that has been paid on the asset corresponding to that income. This measure is being introduced to alleviate a problem that sometimes affects the financial resources of the widow and the children of a deceased taxpayer. The purpose is to provide relief in certain cases from the so-called double impact of estate tax and income tax, which may deplete unduly the resources of the surviving family.

I am proposing to provide for the appointment of an additional member of the tax appeal board. Concern exists about delays encountered in connection with appeals. The enlargement of the board will implement a proposal set forth in the report of May 8, 1959 by the standing committee on estimates.

I am also bringing forward an amendment to deal with the problems of associated corporations to which I drew attention last year. At that time I said that perhaps it was becoming too easy to divide a corporation into a number of smaller components, each of which may qualify for the low rate of tax on its first \$25,000 of income. I indicated that consideration was being given to the possible necessity of introducing some appropriate measure to deal with this method of tax avoidance. In the meantime further study has indicated an amendment of this kind to be necessary.

There are two other highly complex issues relating to the income tax law to which much study has been devoted but in respect of which I am not yet ready to make specific recommendations. I am, however, proposing two separate courses of action.

The first is the question of the application of the income tax law to employees' profit sharing plans. In various parts of the country increasing use is being made of plans by which employers share a portion of the annual profits with employees, thus providing a source of funds to assist the individual to plan for his eventual retirement. Special tax rules for profit sharing plans have been in existence for some time. These rules, however, do not permit employees to defer taxes on amounts contributed to these plans on their behalf. Largely for this reason they have been criticized as being insufficient to allow the fulfilment of the potential social usefulness of profit sharing plans.