

*Income Tax Act*

As well as the tax reform measures, Bill C-139 also contains provisions implementing the measures announced in the February budget, as well as other provisions announced separately. I will return to these measures in a few minutes.

The measures that comprise state one of tax reform are not new—they have been before the House and the public for some time. Just over a year ago, on June 18, 1987, the Minister of Finance tabled in this House a White Paper outlining detailed proposals for comprehensive reform of the taxation system.

• (1610)

[English]

That White Paper was the result of consultations with Canadians, indeed from the beginning consultation has been an integral part of the whole process of tax reform. In developing the White Paper proposals the Government benefited considerably from the insights and recommendations of parliamentarians, representative associations, business, labour, and individual Canadians. When we tabled the White Paper we again invited interested groups and organizations to examine the proposals and present their views. The standing committees of both Houses of Parliament have undertaken extensive public examination of our proposals. In addition, the Minister of Finance (Mr. Wilson) and I and officials of the Department of Finance have met individuals and representatives of many organizations across the country.

Those involved in this process—committee members, representatives of other groups, and individuals—have made a valuable contribution to the consultative process and to the refinement of the reform proposals. This has not been a process in isolation from them but together with them. In their respective reports both parliamentary committees have supported the main thrust of the reforms, and each committee has also suggested a number of specific changes to the proposals. Each of these recommendations, like those we have received from other sources, has been carefully reviewed and weighed against the often stated objectives of tax reform.

One objective is to have a balanced package of measures and a balanced tax system as a result. Another is to ensure that the net fiscal effect of the reform is neutral—a balanced package, a simpler system with a neutral fiscal effect. The December 16 draft of our proposals elicited further comment and allowed us to make a number of changes to the details of our legislation. As a result the detailed notice of Ways and Means motion tabled last month contains an appropriate, well drafted series of proposals.

The process of tax reform is not easy. This House knows that many previous Ministers of Finance have tried to reform the system to a greater or lesser degree and that they have had different degrees of success in their efforts. I believe that the present reform which is the largest one attempted since the reform that followed the Carter Commission report, owes its success to a thorough process of consultation.

Why reform at all, Mr. Speaker? Why did we embark on this large comprehensive process of reform? In the Government's view the urgent need for reform was clear and still is clear. In recent years Canadians have increasingly recognized the need for a fairer system and a more effective tax system. Serious problems have developed since the last major reform. Those problems have affected all parts of the system—the personal tax system, the corporate system, and the sales tax system.

Let me remind Hon. Members of some specific problems of the tax system which have been increasingly recognized in recent years. First, the proliferation of special tax preferences, loopholes, and boondoggles, all of which has put increasing pressure on the equity, the efficiency, and the revenue stability of the income tax system in this country.

Second, in the personal income tax area the growth in preferences, deductions and loopholes has led to an erosion of revenues and has contributed to a growing inequity among taxpayers with similar incomes.

Next, over the decade from 1975 to 1985, there was an increased incidence of high income individuals paying little or no tax. Canadians are not willing to go on supporting a tax system that allows those who are better off to shift the burden to those who are less able to carry it. This cannot and will not be supported.

Next, let us look at what has happened in the corporate income tax world. This was a world profuse with special rate reductions, tax credits, accelerated capital cost allowances, special accounting provisions, and growing tax avoidance. All this extra complex world of corporate tax preferences has not only led to an erosion of the tax base but has also resulted in a substantial variation in effective corporate tax rates across sectors. Some sectors of our country industrially pay very little tax; others much higher. As well, too many preferences have had a considerable distorting influence on investment patterns and business decisions which are too often made on the basis of tax considerations rather than profit potential or economic merit. Business decisions were being deflected from profit potential into taking advantage of tax considerations; in other words, putting the cart before the horse.

Then there is the federal sales tax system. It is antiquated and badly flawed. The problem with the federal sales tax system is that it is narrowly based. It is biased in favour of imports at the expense of Canadian producers. It is complex with high compliance costs and it has a widely different effect on prices. It increases the cost of investment and it places a hidden charge on our exports. It is difficult to think of a sales tax system that could be so badly designed for a country like ours.

Our over-all proposals, then aim to deal effectively with these problems in the tax system. The personal, the corporate, and the sales tax have grown to the point where they seriously compromise opportunities for economic growth, development, and job creation. These problems of the tax system are