

Income Tax Act

the form of a capital gain. The government therefore felt obliged to increase the size of the dividend tax credit, in order to create greater equality between the marginal rate for capital gains and the marginal rate for dividends.

From a technical point of view, if the government wants to stop surplus stripping, the answer is to increase the size of the dividend tax credit so that it will be more attractive to take the surplus in the form of a dividend than in the form of a capital gain. The problem with what the government has done, however, is that by creating greater equality between dividend income and capital gains income it has widened the gap between both of those kinds of income and earned income.

For example, Mr. Chairman, a taxpayer who earns less than \$18,000 pays no tax on dividend income. If all income is dividend income he can earn up to \$37,000 and pay no income tax at all. At \$18,000 he pays 18 per cent on capital gains income and 36 per cent on other income. You can see the discrepancy, Mr. Chairman, but watch how it narrows. If he makes \$30,000, the marginal rate of tax is 16 per cent on dividend income, 24 per cent on capital gains income, and 48 per cent on earned income. For a taxpayer making \$50,000 the marginal rates are 25 per cent for dividends, 27 per cent for capital gains, and 54 per cent for other earned income.

In other words, this technical change in the discrimination system has occurred which furthers the imbalance between the two systems.

This may all sound very technical, but let me point out that the revenue cost of the change in the dividend tax credit for 1979 was estimated to be about \$200 million. This is not exactly an insignificant amount. There was a major tax cut for dividend holders, and that means that the government said, "Look, we are giving tax cuts, we are making tax expenditures in this area, therefore we cannot afford to make other kinds of tax cuts."

That is why I say that one person's tax loophole or benefit becomes another's tax burden. In this case 5.6 per cent of Canada's wealthiest tax filers were subsidized to the tune of \$200 million by 94.4 per cent of the people. This is not the kind of subsidy or tax cut which can be readily understood or even known by the average taxpayer. It is fair to say that the changes which have occurred within the discrimination system in order to create greater equality between dividend income and capital gains income, have only had the effect of necessarily increasing the burden on the average taxpayer who receives neither capital gains nor dividends.

When the Carter commission made its report, and when the government's white paper and the government's tax reform were introduced in 1972, we were told that we could never have full taxation of capital gains because a full tax would have inhibited savings and economic growth, would have reduced the supply of risk capital and, in general, would have impeded capital markets.

These were simply assertions in 1972. I suggest to you, on the basis of the report which is before the House and the

people of Canada at the moment, that in 1981 these remain unfounded assertions.

I find it ironic that without having the courage to draw such conclusions directly, the paper makes a very strong case for full taxation on capital gains.

There have, of course, been strong suggestions from many groups, particularly farmers, that the current taxing regime and capital gains have threatened the very existence of the family farm and small family business. There may well be cases of hardship arising from the deemed disposition of family agricultural land, and from the fact that valuation day is still 1971. These matters have been brought to the attention of the minister. I do not come from an agricultural riding so this was not one of the top items in the Liberal brochures that I saw in the last election campaign. I know from my colleagues who do represent agricultural ridings, however, that the Liberal promise to change valuation day was one of the planks, along with double-tracking of railways and other such flights of fancy, that was at the heart of the Liberal program in western Canada.

The point is that if there is a problem which affects the family farm, if there is a problem which affects valuation day, if there is a problem which affects the question of the small family business, these are all exceptions that can be made whether capital gains is taxed at half rate or whether it is taxed completely. The answer to the problems facing the family farm and the small family business is not to abolish capital gains for everybody but to attempt to make the law work where we want it to work, and to make the exceptions where we want to make them for particular purposes. The answer to the problem is not that suggested by the Conservative party, to abandon capital gains altogether. If we abandon the concept of capital gains altogether we will be back exactly where we were in 1962. We will be back with the same problems that led to the creation of the Carter commission in 1962. Indeed, I would suggest to the minister that we are almost there. The problems of capital gains and the problems of equity in the tax system are as great as they were then.

I see that my time is coming to an end, Mr. Chairman, and I wonder if I might conclude by saying a word about indexing of capital gains. With your indulgence, it will take about one minute.

Indexing has frequently been suggested as essential for capital gains, since many increases are not increases in real value but simply reflect increases in the general cost of living. As long as there is the 50 per cent exemption for capital gains, I cannot see any overwhelming reason for indexing capital property. If we were to move to the full taxation of capital gains, the case for indexing the value of capital property would obviously be strengthened, but only in the context of some more fundamental decisions about the general principle of indexing in the whole of the economic accounting system.

I cannot speak for other parties, Mr. Chairman, but this party is looking for greater leadership from the government in this field and in the field of fiscal arrangements. We want some indication of where we are going. We would like this