

## CHAPTER 3

# Capital Gains as Income

A most difficult tax structure issue with which the Committee was faced was how capital gains should be taxed.

The Committee is satisfied that from the standpoints of measuring ability to pay and minimizing the complexity of the tax system, there are many administrative and equity advantages to the full inclusion of a capital gains in the income base as proposed by the majority of the Royal Commission on Taxation. There are, of course, as the White Paper acknowledges, other important factors which must be taken into account.

Given a maximum personal tax rate of about 50%, a full offset of capital losses, full integration of corporate and personal taxes and generous averaging provisions, the apparent confiscatory effect of full inclusion of capital gains would be offset to a large degree, as would the adverse effects on savings, investment and growth. In fact, in the case of share gains, the Committee found it was demonstrable that in many cases the trade-off between full inclusion of capital gains on the one hand and integration of corporate and personal income taxes on the other would work to the taxpayers' benefit in comparison with half inclusion of capital gains from shares and credit for only half of corporate taxes paid. As a result, though United States tax laws were often held up as a desirable example, the White Paper proposals for taxing Canadian corporate source income of Canadians, including capital gains on Canadian shares, would be lighter overall in many instances than the overall burden in the United States, since in that country no credit for corporate tax is given against personal tax for corporate taxes paid. Other instances of where the White Paper proposals for taxing gains would result in less tax for Canadians than would result under United States tax law were also brought to the Committee's attention, such as on a sizeable portion of capital gains on homes and a portion of gains realized from personal property. In addition, the White Paper proposals for capital losses would be much more generous for taxpayers than in the United States.

However, other important factors are involved, and one decision can necessitate others. The government found it necessary because, among other reasons, of the level of capital gains tax elsewhere, particularly in the United States, and the fact that it was not administratively feasible to tax non-residents on gains on small holdings of publicly traded shares, to modify the Royal Commission proposals by proposing a half inclusion rule