

Income Tax Act

• (5:40 p.m.)

The government's action in discouraging foreign capital can be interpreted as suggesting that people coming to invest in Canada have the smallpox and should be avoided as we would avoid the plague or, alternatively, that we have more capital than we need and we must keep them out. That is the idea that comes to one from some of the things for which this government seems to stand.

I was speaking about short-term versus long-term considerations. In my opinion we need to harness our resources. We will never solve the unemployment problem of this country through government action alone. We must harness the private enterpriser so that he may employ people. We must encourage him to do that. We must harness all the resources we have, including human resources, and stimulate productivity. Incentives should be provided. We must fully utilize all our resources and encourage, not discourage, such utilization.

I do not say how I will vote. I will probably vote for what the government thinks is best. After all, we must carry on; we must keep going. I merely wanted to point out these things. I appreciate the extra time and consideration that has been extended to me and I thank members of the committee.

Mr. Mahoney: Mr. Chairman, I listened with a great deal of interest to the speech of the hon. member for Carleton-Charlotte. We were treated to the courtly, courteous and classic brand of Conservatism that we expect from him. There was, however, one area where I felt that perhaps he may have assumed something that was not entirely justified. He assumed, it seems to me, that somehow or other the capital gains tax would be piled on top of other taxes, that this was to be a source of revenue that would be an increased tax burden for Canadians on an over-all basis and that it would be an added burden to the corporation and income taxes that they have been paying in the past.

I would respectfully direct his attention to chapter 8 of the summary of the tax reform legislation which deals with the revenue consequences of the whole tax reform package. I would most particularly point out that this does not take into account subsequent tax reductions which have been announced by the Minister of Finance. It merely deals with the revenue changes flowing from the tax reform package announced in the June 18 budget and now reflected in the bill before the committee.

I note that although these changes will amount to a net increase in revenue from corporation taxes of \$30 million, and that changes with respect to withholding taxes will increase revenues by \$5 million, the various changes relating to individuals—that is, the increase in exemptions, the employment expenses allowances and the babysitting deduction, if I can use that expression—will result in a reduction, under this package, in personal income taxes of \$290 million. Of course, the elimination of estate and gift taxes will reduce federal revenues by \$65 million. In total, the package means a revenue reduction of \$320 million in the income, estate and gift tax areas. The capital gains tax, it is estimated, will result in increased revenue of \$50 million from corporations and \$80 million from individuals. But this was all taken into account in this whole package and the net reduction in revenues is indeed significant.

I should also point out that the progressive reductions in marginal rates of tax from 17 per cent to 6 per cent for individuals and from 50 per cent to 46 per cent for corporations over the period to 1976 are designed to hold the government's revenues at the current year's level as the capital gains system matures. I am sure the hon. member would not want to leave the impression that the capital gains tax is simply being piled on top of other tax sources, that these other taxes have not been modified in order to take into account the government's real revenue position and that the capital gains tax is simply a device to bring increased revenues to the government.

Mr. Flemming: Mr. Chairman, may I ask the parliamentary secretary a question? Has the government any assurance that when it vacates the succession duties and the estate tax field, the provinces will not move in, so that the net result will be the imposition of additional taxes on some taxpayers?

Mr. Mahoney: Mr. Chairman, on the contrary. We have indications that a number of provinces intend to replace the revenues they will be deprived of as a result of our discontinuing estate and gift taxes. It has been indicated to us that the three provinces that presently levy succession duties, Quebec, Ontario and British Columbia, will continue to do so. However, the whole package, federally and provincially, still involves as far as we are aware a very significant reduction in revenues. It is in the order of \$320 million.

I suggest that it is inconceivable that the provinces, including those which do not at present levy succession duties but are considering entering the succession duty field, would in their levies come anywhere near this revenue figure. One of the conditions that the federal government has suggested to them as a criterion for its agreeing to collect these provincial taxes, if the provinces should indicate a desire for this to be done, is that the succession duty levies adopted by them ought to be, generally, at the level of succession duties imposed in the three provinces of Ontario, Quebec and British Columbia which presently impose these taxes. There is no way in which the succession duties being contemplated by provinces newly entering the field would come anywhere near making up the difference that I indicated earlier.

Mr. Crouse: Mr. Chairman, could I ask a question? Was there not an understanding among the federal government and the provinces that as a result of withdrawing from the estate tax field the provinces would not lose any revenue? I understand that the provinces are very concerned about the loss of revenue which they will suffer. They, in turn, must take action to enter the estate tax field in order to recoup revenues lost through federal government action. Could the parliamentary secretary explain that situation a little better?

This seems to be one of the matters that is deeply troubling provincial ministers of finance. It has been debated, I understand, at the conference held in Ottawa and attended by the finance ministers, the Prime Minister and members of the cabinet. This matter is of crucial importance to my province. It has been indicated that the provincial government will enter the estate tax field in order to recoup some of the revenue lost through federal