

to and improving our residences. The second was to continue the practice of not including in the taxpayer's income the economic benefit which he receives from home ownership. This benefit, which is the value of his accommodation, may be looked upon as the return he has received on the capital he has invested. It should be noted in passing that other countries, including Great Britain, have added this "imputed income" to the taxpayer's income for tax purposes in years gone by.

A comparison between a home owner and a home renter should illustrate this point. Mr. Jones and Mr. Smith each have \$20,000 to invest. Mr. Jones buys a house and Mr. Smith buys securities which yield him a return of about \$1,000 a year. Each year Mr. Smith has to bring into his income \$1,000 while Mr. Jones brings in nothing. But Mr. Smith also has to pay rent for his living accommodation, and of course the rent is not a deductible expense. It is unlikely that the \$1,000 per year, after paying income tax, will provide him with equivalent accommodation to that which Mr. Jones has received for his \$20,000 capital expenditure. Thus, we can see that Jones is ahead of Smith from a tax point of view.

Suppose that after 15 years Jones' home is worth \$40,000 and Smith's securities are worth \$40,000. If they each sell, Jones receives all his money free of tax, but Smith would have to bring half his capital gain, \$10,000, into income. Thus Jones is again ahead of Smith. Thus, the Income Tax Act at present favours home ownership to a very considerable degree.

If the government adopted Mr. Morgan's proposal—

**Mr. Knowles (Winnipeg North Centre):** Order!

**Mr. Herbert:** I am sorry. If the government adopted the proposal of the hon. member for St. Catharines concerning a deduction for mortgage interest, Jones would pull even further ahead of Smith because he could buy a more expensive house, getting a mortgage and writing off the interest. His untaxed imputed income would be greater and his potential capital gain would also be greater. So, we can see that accepting such a proposal discriminates against the person who rents.

**Mr. Morgan:** It is also deductible for him.

**Mr. Herbert:** This is not made clear in the hon. member's motion.

Adoption of this type of proposal would favour high income tax payers in three ways. First, if a man were too poor to raise a down payment on a house, he could not take advantage of this provision. Second, if a man owns his home but has taxable income of less than his mortgage interest or municipal taxes, he could not take advantage of the full deduction. Third, because of the progressive nature of the personal income tax, the deduction is worth more to a taxpayer with a higher marginal rate than to one with a low marginal rate. The maximum deduction proposed of \$500 for taxes plus \$2,000 for mortgage interest would be a very generous tax deduction that would result in a very large tax saving to a high income tax payer.

It is a little clearer to me now because of the interjection from the hon. member for St. Catharines, but it was not clear whether the proposal he made contemplated that

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those who rent would be permitted to deduct a portion of their rental payment, up to \$500 per year, but even if this were done the proposed deduction for mortgage interest would benefit only those who own their own home. It should also be noted that Manitoba and Ontario have adopted, with the co-operation of the federal government, a plan to give tax credits to help offset the cost of municipal taxes. But these credits have two important distinguishing features. First, they are constructed in such a way as to give most benefit at the lower income levels. Second, they are a deduction from provincial taxes payable, rather than from federal taxes payable, thus in effect being an indirect grant by these two provinces to the municipalities within their boundaries.

There are two other points which could be made. First, it is possible that a deduction for mortgage interest would force up interest rates on mortgages because there would be increased demand by potential home buyers, and the potential home buyers might be ready to pay higher interest rates since they could deduct the interest. Second, such a plan would encourage people to mortgage their homes in order to raise money for other types of personal expenses, because they could not deduct the interest on money borrowed to buy other personal items.

**Mr. Morgan:** You did not listen to my argument.

**Mr. Herbert:** I listened to your argument. Thus, we might be encouraging people to mortgage their homes to buy cars and boats, and to take vacations. We might end up with a situation where the ownership of a house "free and clear" would be indicative of bad tax planning. I say this with all sincerity. In my own case I am in the fortunate position of having a home without a mortgage, a home built over 25 years ago, which I have been able to improve and enlarge substantially over the years. It does not have a mortgage at the present time simply and honestly because the interest on that mortgage would not be deductible.

I suggest, Mr. Speaker, that if this motion were to be carried, and interest on mortgages became deductible I would be one of many, many people who would be seeking a mortgage on my house, and I would have a use for the money. It is a straight matter of economics, that on the use of those moneys in other places I would be likely to get more than the net interest I would be paying for them. An interest rate of somewhere between 9 per cent and 10 per cent for a person in a higher bracket would be an effective rate of something like 5 per cent.

● (1730)

I also suggest that persons whose mortgages are nearly paid off will be thinking about increasing their mortgages for the same purpose. Most of us are perennially short of cash. How do we go about getting cash? We borrow. What better way is there of borrowing than by mortgaging our homes? If this proposal were adopted we would gain the advantage of being able to deduct the interest payments from our income and thus, in effect, we would get cheap money.

The hon. member suggested that his proposal would encourage home construction. As I see it, it would do quite the reverse; it would discourage home construction. Home