time. My disappointment with respect to the government's policies is twofold. My first disappointment is that the government has not made a decision as to how it will deal with the discussion paper. It seems to me that we should have received some indication from the government by now as to how the House will deal with this paper.

Mr. Blenkarn: We should have had a committee.

Mr. Rae: It is all very well for the government to present a discussion paper, the outlines of which I will try to summarize in a moment, and it is a study which deserves discussion. Unfortunately, I am not clear, nor has it ever been clear to me, how the discussion would take place. I can discuss the matter with the minister or we can discuss the matter among ourselves, and we can all attempt to come to grips with the subject matter, but surely the government must take some initiative. Will the paper be referred to the Standing Committee on Finance, Trade and Economic Affairs, or a task force, or does the government intend to bring in legislation with respect to the capital gains tax, in the next budget, or will the paper be shelved forever? If the paper is shelved, it will not be the first such discussion paper, investigation or report, to see that end.

However, I am a little startled that we have not received one statement from a member of the government indicating its general attitude with respect to the proposals put forward. It may be because there is no unanimity in the government on its views with respect to capital gains. I expected a clearer indication as to how the government intends to deal with the problem, rather than it merely leaving the matter on the floor to see who picks it up and kicks it around. We can anticipate from the Conservative party a general defence of privilege which will lead them to argue that capital gains tax should be either abolished or reduced to a nullity.

The report discusses the problems of capital gains and the way in which the system presently works. I would like to raise those matters with the minister, as well as my suggestion on what should be done with the report. The study reveals that Canada has the lowest rate of tax on wealth inheritances and gifts of all the OECD countries. It shows that 7.1 per cent of taxpayers, all of whom had assessed incomes in excess of $25,000 in 1978, received two thirds of all taxable capital gains income. Even more striking, less than 1 per cent of taxpayers, with incomes over $50,000, received 43 per cent of those gains. The study also reveals that the combined federal-provincial marginal tax rate on capital gains is one half the rate on other income, and that the maximum federal tax rate on the income is a mere 21.5 per cent.

These findings should be no surprise to anyone. They can be explained in part by the elimination of federal estate and gift taxes in 1972 and the decision on the part of nine of the ten provinces to abandon succession duties, but they are also due to the leniency of our capital gains tax which exempts one half of the gains from taxation and allows recipients to minimize a tax by declaring gains only when they are realized.

On the first point which deals with the general question of wealth and inheritance, it is interesting to note that for the last year the federal government imposed an estate tax, 1971, it brought in $100 million which, in 1980 dollars, amounts to over $200 million. The deemed disposition on death capital gains tax is calculated to have collected $11 million for the government in 1978. I mention this fact because when I last spoke on this subject during second reading debate on this bill, I was upbraided by several members of the Liberal Party and of the official opposition who said, "Well, you talk about the fact that Canada has the lowest rate of tax on gifts and inheritances, Mr. Rae, but what you do not mention is the fact that we have introduced the capital gains tax and the deemed disposition on death to make up the difference". My response was that in fact the evidence showed there is no comparison between the income lost and abolition of the estates tax and the income which has been gained for the federal government through the imposition of deemed disposition on death.

The government cannot get around the problem by saying that the one half tax on capital gains satisfies the inequity created in our tax system, because it allows so much money to be transferred from generation to generation by very wealthy Canadians without having to pay any taxation to the government. I am not referring to average or lower income Canadians. I am referring to the wealthy Canadians.

There are really two systems in Canada. There is what I call the "fairness system", which is the system which applies to all employees. This system is progressive and it takes money from its source. Then there is what I call the "discrimination system". The discrimination system exists for those who have enough money to be able to invest in the shelters, to create trusts, or to be able to use the tax system to their advantage. The capital gains system is part of what I call the "discrimination system". If we make changes within the discrimination system alone, the effect is simply to increase the burden of the average taxpayer.

● (1620)

Let me give you a concrete example which is discussed in the government paper and which is affected by several of the measures proposed in Bill C-54. The minister will know that the widespread use of dividend and surplus stripping was one of the main reasons for the creation of the Carter commission. Surplus stripping means that instead of declaring a capital gain—instead of taking surplus off in the form of income, a decision is made to transform that surplus into a capital gain and not take it in the form of a dividend. This is something which can be readily done by personal incorporations, and indeed by the creation of several personal companies in order effectively to avoid any dividend tax at all.

The full taxation of capital gains would have solved the problem which lay behind the creation of the Carter commission in 1962. However, the government chose not to go that route, and instead taxed half of capital gains, and invented the dividend tax credit. At first the dividend tax credit was low, and there remained a considerable incentive to strip surplus in