

The Budget—Hon. John C. Crosbie

We now have some seven years of experience with the taxation of capital gains. In 1980 I estimate that federal and provincial revenues from that source could amount to over \$1 billion. A number of proposals have been made, and a number of concerns expressed, regarding taxation of capital gains. I have reviewed them all. I intend to table shortly a discussion paper on the tax treatment of capital gains and will refer it to a parliamentary committee for consideration. It will deal comprehensively with this whole issue, including the question of indexing capital gains and providing special exemptions for certain gains such as those on farm land and publicly-traded Canadian shares. After I have heard the views of the committee I will consider what further action should be taken in my next budget.

Some hon. Members: Hear, hear!

Mr. Crosbie: My grandfather had five, and I expect no less.

SMALL BUSINESS

The small business sector is one of the great strengths of this country.

For the 1980 and subsequent tax years unincorporated businesses will be allowed to deduct salaries paid to spouses who work in the business. This measure is costly. It will reduce federal revenues by some \$150 million a year. But, in addition to aiding small business, the measure is sound tax policy. It properly recognizes the contribution that many wives make to running small businesses and which has recently been denied.

Some hon. Members: Hear, hear!

Mr. Crosbie: Mr. Speaker, I have recently been reminded that wives are not chattels.

I recognize, Mr. Speaker, the impact of recent increases in interest rates. I want to do what I can to alleviate the situation for small business corporations. As a temporary one-year measure, small Canadian-controlled private corporations will be able to issue up to \$500,000 of special bonds. Interest paid on these small business development bonds will be treated as dividends. It will not be taxable to the lending institution nor deductible to the borrower. This form of after-tax financing will substantially reduce the borrowing costs of small business corporations. I emphasize that this is a temporary measure of special benefit and so it is proper to apply a "sunset" provision to it. It will be limited to indebtedness issued before the end of 1980 with a term of at least one year and no more than five years and each borrower will be eligible for only one such bond issue at any time.

● (2100)

REGIONAL AND SECTORAL DEVELOPMENT

Mr. Speaker, I want to encourage further the important contribution that the private sector can make to regional development. I am proposing to do this by facilitating the use of selective tax incentives. They will take the form of tax contracts with firms for investment projects in the Atlantic

[Mr. Crosbie.]

Provinces and the Gaspé region of Quebec. This stimulant will add to the range of federal incentives now available in the designated regions of Canada. The nature of the tax incentive will be determined on a project by project basis and will be administered by the Department of Regional Economic Expansion in consultation with the Department of Finance. This selective approach will provide the flexibility to promote those economic activities which are most promising.

I also have particular measures to announce concerning the Atlantic fishing industry. After tonight, capital cost allowance on leased fishing vessels, newly-built in Canada for use in the Atlantic fisheries, may be used to reduce other taxable income. This will draw new sources of private financing into the sector and will permit an improvement in the quality of the fleet for vessels ranging in size from the long-liner to the freezer trawler.

Some hon. Members: Hear, hear!

Mr. Crosbie: For those hon. members opposite who do not know, a long-liner is a vessel of anywhere from 40 to 60 feet in length. It has nothing to do with National Sea or anyone else.

REVENUE-RAISING MEASURES

There is need for a short-term temporary tax increase to ensure that the deficit comes down. There will be a simple, straightforward corporate surtax of 5 per cent of federal taxes otherwise payable by all corporations. The measure has an explicit "sunset" clause. It will terminate at the end of 1981. It will yield some \$370 million in the 1980-81 fiscal year. The advantage of this simple surtax is that it leaves intact the structure of tax rates and tax incentives. For example, small businessmen and manufacturers who pay tax at lower rates will pay a smaller amount of surtax.

I have reviewed the federal commodity tax structure. The federal levies on alcohol products have not been increased for a number of years. With inflation, the real burden of these taxes has fallen significantly. Moreover, the taxes on alcohol need to be rationalized. The tax per unit volume of absolute alcohol varies dramatically from product to product. I am proposing a series of tax changes that will reduce this disparity and will, over all, yield some \$130 million in 1980-81. Taxes will rise on spirits, brandy, fortified wines, table wines and regular and light beer. Taxes will fall on sparkling wines and on malt beer. The tax increases amount to about 11 cents on a bottle of spirits, 13 cents per bottle of table wine, and 1 cent per bottle of beer.

An hon. Member: What about screech?

Mr. Crosbie: Eleven cents on a bottle of screech!

There will also be an across-the-board increase in specific excise taxes and duties on tobacco and tobacco products of about 10 per cent. These taxes have not been increased since 1974 and their real value has also fallen. The increase on cigarettes will amount to 2.5 cents per pack of 20.