

*The Budget—Mr. MacEachen*PROPOSALS TO REDUCE THE TAXATION OF INVESTMENT
INCOME AND INTEREST RATES TO BORROWERS

Tonight, I am tabling a consultative document containing proposals which, if implemented, would have the following major effects:

—Canadians investing funds in a new form of term deposit would not be taxed on that part of interest that only reflects the rate of inflation.

—Canadians investing funds in new plans for purchase of common shares of Canadian corporations would not be taxed on that part of the capital gain on such shares that only reflects inflation.

● (2040)

—Buyers of new homes would be able to secure mortgages at significantly reduced interest rates—3 to 6 percentage points lower than prevailing rates.

—Small businesses, farmers and fishermen would be able to secure loans for new capital investment at similarly reduced interest rates.

—Canadian corporations would have improved access to risk capital.

These proposals would introduce major innovations in our tax system as well as in financial markets. The government intends to implement them quickly once their feasibility has been confirmed.

I am creating immediately a committee of prominent Canadians from the financial, legal, accounting and economic communities to examine the proposals and advise me on their feasibility not later than September 30. I also invite interested Canadians to forward their comments to me directly. I want to make it clear that this consultative process reflects the more open process on major tax initiatives which I advocated in my green paper on the budget process. I regard this kind of major tax initiative with far-reaching consequences explored by a prominent group of Canadians from the financial, legal, accounting and economic communities.

NOVEMBER 1981 BUDGET MEASURES

I am tabling today a comprehensive notice of Ways and Means motions relating to the November 1981 budget. The notice contains the income tax legislation in draft form to allow for a review of the draft amendments by those affected before the final tax bill is introduced.

The proposed legislation will go a long way to improve our tax system. The November measures have been far-reaching and controversial. Since November, I have attempted, after extensive consultations, to accommodate legitimate concerns that have been raised. I have already announced a number of changes to my original proposals. The notice I am tabling reflects these changes. I am also making further modifications, including the following:

—The 12½-per-cent corporate distributions tax applicable to small business will be postponed for one year to January 1, 1983.

—The proposals related to the deduction of interest expense will be reviewed, and their effective date will not be before 1983.

—The proposed automobile standby charge has been reduced from 2½ per cent to 2 per cent.

—The rules on the restriction of interest expense will not apply to commitments relating to employee share-purchase loans undertaken prior to November 12, 1981.

—Modifications have been made to the proposals relating to forward-averaging for artists and athletes.

—Other changes have been made relating to corporate reorganizations and loans to non-resident corporations.

The draft legislation does not contain provisions affecting life insurance or charitable foundations. The precise drafting of these income tax amendments has been delayed because of extensive and successful discussions with representatives of these groups. I have already announced a mutually satisfactory solution on the taxation of charitable foundations. I am also making public today a revised approach which preserves the objectives of the November measure relating to life insurance which is acceptable to the life insurance companies.

This disposes of tax issues arising from the November budget. With these uncertainties removed, it will be more evident that the taxation of business and investment income in Canada compares favourably with that of any other country in the world.

FOREIGN INVESTMENT

Last November, I made public a budget paper in which the government outlined its approach to economic development. The directions set out in that paper continue to guide government policy. As was stated in the budget paper, the objective the government is pursuing through the Foreign Investment Review Act is to ensure that foreign-controlled corporations serve the Canadian interest by contributing fully to the development of an innovative and internationally competitive industrial structure. This is a reasonable goal to which the government remains fully committed.

At the same time, the Foreign Investment Review Act must be administered to adhere to the objectives established by Parliament. Its procedures must be timely and efficient. In particular, efforts must be made to avoid red tape and extended delays.

With this in mind, the government has decided the following:

First, the threshold for review under the small business procedures will be raised from \$2 million and 100 employees to \$5 million and 200 employees for new investment or direct acquisitions in Canada.