

*Income Tax*

commissions. Exemption of small business to the corporate surtax is continued, and the surtax rate of 1983 is reduced to 2.5 per cent. The taxable benefit for an employee with a company car will be 2 per cent of the cost of the car or two-thirds of leasing costs. This is a reduction from the original proposal in the 1981 budget presented to the House.

As the Minister of Finance told the House of Commons in speaking to the Bill, it is of great importance not only because of the many positive changes it proposes in the tax system but also because its passage will end the uncertainty that lingers on through this process of consultation since this legislation was first introduced. He added that the Bill also provides an important example of the mechanism of consultation in shaping a tax system that works better for all of us. Indeed, the Minister carried on that process in the first months of this year in preparation for the upcoming budget and met with a wide variety of Canadians representing a particular interest in the community right across the country.

The time span covered by the process, that is from the original introduction of the 1981 amendments to date, reflects the degree of intensive and comprehensive consultation that was followed. Department of Finance officials met directly with a wide range of individuals and organizations who had advice to give on tax issues. In addition, Members of the House of Commons and the Senate gave consideration on both a formal and informal basis to many of the issues before they were finally brought forward in Bill C-139.

The Finance Committee of the House worked through the summer. It reported in the early fall. The Senate Committee on Banking, Trade and Commerce also held hearings on the original Ways and Means motion which signalled the contents of the Bill. Members individually and through their Party representatives held meetings across the country and solicited input to the original proposals.

The Lortie Commission, comprised of private sector individuals, made recommendations on the matter of inflation and the taxation of personal investment income. Several other groups of outside tax experts and members of the business community were appointed to examine important tax proposals. I submit that the proof that this consultation was for real is in the legislation which we have before us. Indeed, we solicited and received much advice and the proof of the pudding that we listened to the advice are the amendments before us which have taken that advice into account.

● (1115)

As I indicated earlier, the basic premise of the Bill is that the Canadian tax system is better with lower rates of tax levied over a broader base. In order to broaden the base, we decided to apply a principle that supposedly has been the cornerstone of the income tax system. It is that the purpose of income tax in Canada is to tax income.

However, we all know that there are certain segments of the economy where this framework has not been applied or has not been applied as strenuously or diligently as it should have been. There were certain tax advantages enjoyed by some Canadians investing in various financial instruments, such as

guaranteed investment certificates, term deposits, bonds, deferred annuities and certain contracts of life insurance.

Therefore, in November, 1981 and again in June, 1982 the Government signalled its intention of taking a new direction in the matter of taxation by broadening the tax base but, at the same time, lowering tax rates. In tightening the system, it became apparent that as we eliminated tax advantages in some areas, the purchase of life insurance purely as an investment instrument for tax deferral purposes was becoming increasingly attractive, particularly to those Canadians who had a good background of disposable income available for those investment purposes. The Government was then faced with the task of preventing unfair advantage being taken of the situation without losing sight of the fact, of course, that most Canadians who buy life insurance as protection for their dependants should not be penalized in the process of the adjustment that we had recommended.

As an indication of the Government's success in approaching this difficult aspect of balancing the interests of taxpayers and those in the life insurance industry in particular, I would like to refer to an article in the December 18 issue of *The Financial Post* of which the headline states: "Life Industry Comes Out on the Bright Side". The report begins:

For whole life policy holders, life agents and life companies, Ottawa's package of Income Tax Act amendments last week was well worth the wait—all sides seem to have scored little victories.

This was done, I might add, after lengthy and productive consultation with the life insurance industry and I would like to highlight the results, if I may.

The most important point to keep in mind at the outset is that the legislation does not affect any policies purchased before December 2, 1982. The vast majority of policies purchased after that date will not be taxed on accumulating income on a regular basis. This is the result of the amendment that defines an exempt category which people in the industry indicate will exempt the broad base, up to 90 per cent, of anticipated business in the industry.

The policies exempted from tax are essentially those paid for by premiums over 20 years or more. This was a major concession on the part of the Government. There is an income build-up in policies exempted as there is in other policies, but by saying that this income will never be taxed if the policy is held until death, the Government is providing an important incentive for the purchase of life insurance protection. The life insurance industry has played an important leadership role both in Canada and in many other countries. It is in recognition of this very important role which the life insurance industry has played that the Government has moved to that exemption.

● (1120)

I would like to say a few words about this issue of complexity and the time it has taken for this legislation to be processed through the House of Commons and its committees in the normal legislative process. Some Hon. Members argue that the