

*Income Tax*

Under subclause 16(2) a taxpayer is allowed to deduct fees or expenses in connection with appeals from or objections to decisions handed down in respect of his application for unemployment insurance. As a consequence, paragraph 56.1(1) requires that where a taxpayer recovers these costs as legal costs awarded to him, he must bring the amount recovered into income where he had a deduction in respect of it. Unfortunately the bodies handing down decisions in respect of unemployment insurance claims are not courts and therefore have no authority to award legal costs. The wording is therefore meaningless, and the technical amendment corrects the deficiency and ensures that where a taxpayer is reimbursed for such costs after he has deducted them, the receipts are included in income.

Under the third clause the amendment makes clear that provincial family allowance receipts must be included in a taxpayer's income if the province provides the deduction for the child under its own income tax legislation. This is to be the case whether or not the taxpayer is able to take full advantage of the deduction having regard to the child's income level.

**Mr. Knowles (Winnipeg North Centre):** It is with respect to family allowances that I should like to question the minister further. In particular may I ask whether this results in any double taxation of family allowances—that is, taxation by both the federal government and a provincial government?

**Mr. Macdonald (Rosedale):** The advice I have is that it does not.

**Mr. Knowles (Winnipeg North Centre):** There is another question about the taxation of family allowances that I should like to put to the Minister of Finance, and I am glad his colleague, the Minister of National Health and Welfare, is in his place.

● (2150)

I have in mind the fact that when a grandparent is looking after a grandchild and the family allowance is paid in respect of that grandchild, if the grandparent is receiving the old age security pension and the guaranteed income supplement, the income received as family allowance counts as income under the guaranteed income supplement and results in that supplement being cut back. I might say that the nub of this is in the Income Tax Act itself, but I must refer to the Family Allowances Act to make my point.

Even though I oppose the means test which applies to the guaranteed income supplement, I can understand the philosophy which says that if a senior citizen is receiving some other money which he can use for himself, he should lose some of his supplement. But in this case the grandparent, the senior citizen, is receiving family allowance money for a child. Obviously it is not a benefit to the grandparent because actually the grandparent cannot fully maintain the child with that family allowance money, yet the grandparent loses some of his guaranteed income supplement. When I have taken this matter up with the Minister of National Health and Welfare the answer has been that nothing in the Family Allowances Act causes

[Mr. Macdonald (Rosedale).]

this; but there is something in the Old Age Security Act which says that income for purposes of the guaranteed income supplement is any money defined as taxable income in the Income Tax Act. I ask the minister if the point is clear?

Because the Income Tax Act says that family allowances are taxable, family allowance money becomes money charged against a grandparent receiving the guaranteed income supplement. I suggest that the place to correct this is in the Income Tax Act. May I ask if there is any chance of that correction being made right now while we are dealing with the Income Tax Act?

**Mr. Macdonald (Rosedale):** Mr. Chairman, I think I would have to say that there is not, in the present circumstances. However, my colleague, the Minister of National Health and Welfare, points out to me that there is an anomaly here which he, for one, would like to see corrected. I think the best I can do at this point is to undertake to give the question active consideration before the preparation of the next budget. I might say, more generally, that we now have under way a study of the integration of the various transfer payments with the tax act, a study of which the hon. member may be aware. One of the objectives of that study would be the removal of this anomaly under which we pay out a series of payments which may be given conflicting treatment under the Income Tax Act.

**Mr. Knowles (Winnipeg North Centre):** Mr. Chairman, I wonder if either the Minister of Finance or the Minister of National Health and Welfare have come to an understanding as to which piece of legislation ought to be amended? Is it to be the Family Allowances Act or the Income Tax Act? If it is to be the Family Allowances Act, I cannot pursue the matter now as the matter is not now before us; but if it is the Income Tax Act I think I ought to pursue the matter now because, as matters stand, some grandparents are losing money because income for the purposes of the guaranteed income supplement is money which is defined in the Income Tax Act as taxable, and family allowances are so defined in the Income Tax Act.

**Mr. Macdonald (Rosedale):** Mr. Chairman, I think the collective ministerial view in this case would be that the matter relates to legislation under the jurisdiction of my colleague.

**Mr. Broadbent:** Because it is not before us.

**Mr. Knowles (Winnipeg North Centre):** Mr. Chairman, it does not matter to me which minister corrects it, but I have a sneaking suspicion—

**An hon. Member:** Oh, oh!

**Mr. Knowles (Winnipeg North Centre):**—I have a sneaking suspicion that if we do not get it corrected when we are considering the Income Tax Act, when the other legislation is before the House that minister will say, "This should have been corrected when the Income Tax Act was under consideration."