

*The Budget—Mr. Gordon*

I shall therefore propose that, effective tonight, the Income Tax Act be amended to give the Minister of National Revenue power to look through so-called dividend stripping transactions and to deem shareholders to have received dividends in these cases.

To eliminate another method of tax avoidance I shall also propose that effective tonight section 18 of the Income Tax Act be repealed. This section, dealing with lease option arrangements, has given rise to repeated abuses by allowing rental agreements to be cast in a grossly distorted form in order to avoid tax. Action in connection with this section has been urged by the joint committee of the Canadian Bar Association and the Canadian Institute of Chartered Accountants.

As a further measure to close loopholes, I shall propose an amendment to stop the device whereby a company that has experienced losses is purchased for the purpose of applying those losses against income from another business.

I shall also propose that the practice concerning certain annuity contracts which are converted into cash, or have settlement options other than an annuity for life, be changed and that all the interest earned on the funds invested in such contracts made after tonight shall be subject to tax.

I want to make it clear that this will not be retroactive.

Turning to the elimination of anomalies and anachronisms, the government is putting forward a number of proposals.

The excise duty on exports of electrical energy should have disappeared long ago. We propose that it be abolished at the end of this month.

The base of the sales tax on gasoline is to be altered. Wholesalers have almost entirely disappeared from this field; therefore the wholesale discount of some 25 per cent which has existed for tax purposes for many years is no longer appropriate. Its elimination will bring increased revenues of perhaps \$25 million in a full year, of which \$7 million will accrue to the old age security fund and the balance to general revenue.

It is also proposed that a change be made in the taxation of rebuilt or remanufactured goods. Recently there has been a considerable increase in the production of goods using old parts or materials, with or without new components. These goods compete with similar goods manufactured from new materials, and they should be equally subject to sales tax. On behalf of my colleague the Minister of National Revenue I am therefore giving notice that his department proposes to examine carefully the operations of persons en-

gaged in such work, and, where necessary, it will license them as manufacturers under the Excise Tax Act.

I am also proposing that companies whose business is the transmission of oil or gas through pipe lines be allowed to deduct from their income the expenses they incur in exploring or drilling for oil, gas or minerals. This concession will be a useful incentive to increased exploration activity in this essential industry and should increase Canadian participation in an industry now principally owned abroad.

I shall now propose a number of changes in the Customs Tariff. There are some increases and some decreases but on balance they represent a reduction.

I shall make several proposals relating to textiles, the two more important of which give effect to the recommendations of the tariff board in its last three reports on this subject. These proposals will involve both increases and decreases in duties, and will lead to a modernized and simplified tariff schedule in this area. They will therefore be of assistance to Canadian textile producers.

The proposals I have just referred to also include certain compensatory concessions on products other than textiles which have arisen from renegotiations under the general agreement on tariffs and trade.

I shall propose further a miscellaneous group of other tariff changes providing for reductions in rates or representing merely technical alterations. I shall also propose that the level of customs exemptions given to returning Canadian tourists which was introduced on an emergency basis last June be continued by statute.

Before leaving the tariff field, I have a further word to say about the surcharges imposed last June. As I stated in the house on May 21, the legality of the surcharge on imports order has been challenged, and the matter is before the courts. This poses a difficult problem. In many cases those who paid the surcharges, and who might now be entitled to claim refunds should the order be found to have been invalid, passed the amount of the surcharges on to their customers. These customers in turn may have passed the amount on to their customers, and so on. As I said in my statement, it would not be possible to unscramble a situation of this kind. Accordingly I shall propose legislation on the surcharge order whose principal effect will be to prevent any massive attempt at obtaining refund of moneys in fact paid by people who are not now identifiable.

I should now like to propose a number of measures connected with foreign investment in Canada.