

HOUSE OF COMMONS

Tuesday, December 20, 1983

The House met at 11 a.m.

● (1110)

GOVERNMENT ORDERS

[English]

INCOME TAX ACT

MEASURE TO AMEND

The House resumed, from Monday, December 19, consideration in committee of Bill C-2, to amend the statute law relating to income tax and to make related amendments to the Canada Pension Plan and the Unemployment Insurance Act, 1971—Mr. Lalonde—Mr. Blaker in the chair.

On clause 2—*Taxable income defined*

Mr. Orlikow: Mr. Chairman, the vast majority of Canadians, certainly those living in our cities and towns, receive the bulk of their income, if not all, from wages, or salaries, have no investments and are not able to take advantage of the many tax concessions given to investment income, and pay a fairly substantial part of their gross income in the form of income tax. In order to take advantage of the various clauses in the Income Tax Act which permit people with other forms of income to deduct various expenses, one needs to hire a tax accountant or lawyer.

We find, Mr. Chairman, that people who have large incomes do quite well. In the *Montreal Gazette* this morning it was reported that there were 239 people with incomes of over \$250,000 who paid no income tax at all; there were 1,490 Canadians with incomes of over \$100,000 who paid no income tax. Jack MacArthur of the *Toronto Star* recently reported that there were over 4,000 Canadians with incomes between \$50,000 and \$100,000 who paid no income tax at all. Yet the Government is bringing forth this ISIP proposal which gives another break to the same kind of people who have already done very well.

I would like to quote from a statement made yesterday by the Minister in reply to the Hon. Member for Bow River as to how this program works. He said, as reported at page 333 of *Hansard* for December 19, 1983:

—in the case of ISIP. If there were a capital gain of \$60 in the course of a year, in the current year the investor would have to report one quarter of that, or \$15. The taxable portion of that is one-half, that is, \$7.50. The tax rate on that taxable portion is 50 per cent. Therefore, the tax payable would be \$3.75.

That is a percentage of that income of \$60, Mr. Chairman, of less than 6 per cent. Is that the kind of just society in which

the Liberal Government believes, that people with top incomes can get away with paying on only part of their income at a rate of less than 6 per cent, and when many people pay no income tax at all? Would the Minister explain the rationale for this kind of proposal?

Mr. MacLaren: Mr. Chairman, the Hon. Member opposite raises a rather broad point about equity in our tax system and a more specific point about the effect of ISIP on those who participate in it. The Hon. Member raised the broader question, that is, that there are some people in Canada with high levels of income who have been able to avoid paying tax in a certain year.

● (1115)

I ask the Hon. Member to bear in mind that the numbers he cited referred to one year. It may be that in any given year there are individuals or companies who are able to avoid paying tax as a result of certain circumstances in that particular year. But then, of course, in subsequent years much of the income they received in that year may be taxed as circumstances change in the subsequent years. For example, business losses from prior years may contribute to the situation the Hon. Member described. Charitable and medical deductions of a major character may also contribute to a situation where an individual does not pay tax in any one year.

I remind the Hon. Member that we have in Canada, indeed there is in most industrialized countries, a tax system which allows for the deduction of interest expense on money borrowed for investment purposes. Again, it may be that in any given year that deduction could contribute to a situation where the individual does not pay any taxes. The cumulative effect of those three factors, business losses, charitable and medical expenses, and interest paid on money borrowed for investment, could result in an individual not paying taxes in one year. But I think that the Member opposite would agree that the intent behind those three factors is equitable, that of promoting business expansion and investment in Canada, and is not one to be eliminated.

On the more specific question the Hon. Member raised, he cited the example I offered yesterday of how ISIP would shelter the inflationary element of capital gains from taxation. He drew our attention to the fact that I suggested that on \$60 of capital gains, only \$3.75 in tax would be paid. That is true for the first year only. That is to say, in each of the three subsequent years an additional \$3.75 is paid as well, for a total of \$15 tax on the \$60.

Mr. Orlikow: Mr. Chairman, the Minister suggests that the illustrations I gave may only apply for a particular year. It