

*Income Tax Act*

provide that shares of an investment corporation purchased by a taxpayer after today will be classified as "foreign property", except as prescribed by regulation. Generally speaking, the operation of the "foreign property" rules as they relate to investment corporations will be effected on the same basis as that prescribed for Canadian mutual funds and pooled funds in the press release which I issued on June 30, 1971, regarding this matter, except that today will be the effective date.

In addition to this change regarding investment corporations, I would like to announce at this time an amendment the government will propose to clause 65 in part III of the bill that will be of importance to registered retirement savings plan trusts that have contractual investment plans with investment corporations, mutual fund corporations, mutual fund trusts or trust company pooled funds whose shares or units will be classified as "foreign property" under the new rules. In order to give these trusts more time to rearrange their contractual plan commitments, this amendment will provide that any such shares or units acquired by a registered retirement savings plan trust before 1974 will, subject to specified limits, be deemed to be "foreign property" acquired by the trust before June 19, 1971.

The rules in subdivision (i) relating to the taxation of passive income—that is, foreign accrual property income—are complex. The complexity is inevitable if the provisions are to be both effective in curtailing abuse and yet fair to those multinational corporations based in Canada which carry on extensive operations in other countries. The government's objective is to achieve a fair balance between these two sometimes competing objectives. We recognize the importance of consulting with those Canadians with overseas investments in striking the appropriate balance.

To provide an opportunity for this consultation to take place, Bill C-259 already provides that the passive income provisions will not take effect on January 1, 1972. Clause 35(3) of the transitional provisions, page 659, provides that the passive income rules will apply only for those taxation years of foreign affiliates that commence after 1972.

We have already received a number of presentations relating to the passive income provisions and it seems clear that some changes to the law in this area should be made before the provisions take effect. However, we have concluded that it would be premature to introduce changes at this time before all representations have been received and given the study they require. Most of the amendments I am tabling are technical, while a few are largely of a relieving nature to overcome potential hardship cases. All are the result of my officials reviewing the bill following submissions by organizations and individuals who have given the bill careful scrutiny since it received first reading at the end of the budget debate.

The Canadian Institute of Chartered Accountants, the Canadian Bar Association, the Canadian Tax Foundation and the Canadian Chamber of Commerce, as well as many other organizations and individuals, have spent a great deal of time and effort in reviewing the bill. I have been particularly impressed with the fact that most of the submissions have not merely focused attention on potential hardship cases but have also indicated instances where amendments are necessary to prevent tax avoid-

ance schemes. The submissions of these organizations and individuals have been valuable. In the main, the amendments are in response to these submissions.

• (3:10 p.m.)

Throughout the debate we have heard a good deal about the complexity of the bill. Bill C-259 is complex, so is the present act. As practitioners gain familiarity with the new system, the issue of complexity will abate. For the average taxpayer the complexity issue has no relevance. Wage earners will continue to complete reasonably simple tax returns. The more complicated provisions of the bill, those involving the corporate tax regime and the provisions dealing with capital gains transactions, are of principal concern to the business community. A complex tax system is nothing more than a reflection of a complex, commercial world.

Much of the complexity in this bill is to relieve taxation. For example, the decision to tax capital gains at only half rates requires much more complicated provisions than if capital gains were treated in the same way as ordinary income. Similarly, certain capital gains—for example, the gain on principal residences—are exempt. These exemptions cause complexity. In addition, while other transactions are not exempt, the tax arising on the transaction is deferred. By this I am referring to amalgamations and certain other types of corporate reorganizations where the relieving provisions require complex rules. The decision to reduce the burden of the double taxation of corporate income necessitates rather complex rules concerning refunds at the corporate level.

Because the bill introduces new concepts there was a need to avoid a retroactive impact. The belief that the bill should not be retroactive resulted in complex transitional rules all of which are designed to prevent the taxation of previous accrued gains and income. The bill appears more complex than it would otherwise be because it also represents a restructuring of the old Income Tax Act. As persons become more familiar with the restructuring, the renumbering, the design and symmetry of the bill will become more apparent and more familiar and be recognized as a desirable objective.

To facilitate hon. members' consideration of the bill I would like to speak for a moment about its structure. There are four parts. Part I contains amendments to the present Income Tax Act. It is the basic tax reform bill. Part II consists of proposed changes to other acts that are related to the amendments contained in part I of the bill. Part III deals with the coming into force and application of the amendments contained in part I. It sets forth special transitional rules that would apply until such time as the new law becomes fully operative. In addition, this part contains special rules that would apply in the case of certain taxpayers having taxation years not coinciding with the calendar years. Part III is given the short title of "Income Tax Application Rules, 1971." Part IV contains amendments to the present Income Tax Act which are to become effective in 1971.

Part I of the bill repeals all but a few sections of the present Income Tax Act and substitutes new sections. The new sections include many completely new provisions such as those providing for the taxation of capital gains and new deductions. But there are also many instances