

Income Tax Act

ures, the exemption for a single person ought to be established at around \$1,800 and for a married couple at around \$3,600. Perhaps the minister could tell us of any figures that the people in his department have established. Perhaps he can tell us why he has established the present levels. At any rate, so far as I can figure out, the exemption levels I have suggested ought to apply. If one considers cost of living increases between 1949 and 1961 and between 1961 and the present, one will see that the exemption levels I have suggested are about right. Surely, in this age of computers and electronics we can arrive at a better way of working out these matters without cheating our taxpayers.

By setting exemption levels as we have we are cheating the taxpayers at a time when their dollar is being eroded. Surely, that is not right. Provision ought to be made in this bill, for higher levels, and I will ask the minister to give that serious consideration. He ought to introduce a new system whereby exemption levels are adjusted each and every year to take into account increases in living costs, inflation, or whatever the case may be. There is no reason for not doing that in this electronic age. Actually, income tax forms are processed electronically, so that there is no excuse for not looking into this matter every year, two years or even five years. Let us not wait again for a period as long as that between 1949 and 1971 before adjusting exemptions. Such neglect looks a bit ridiculous in the present age.

The increased exemption of \$650 for those of 65 and over is a good measure, because among those people there is an increasing toll of illness and their illnesses are of longer duration. As I say, however, the minister ought to give the matter of the adjustment of exemptions serious consideration. If they cannot be adjusted yearly, perhaps they could be adjusted every three, four or five years. I think it could be done yearly. I would not like to see exemptions increased in the same way as the guaranteed income supplement is being increased. Let there be no 2 per cent per year escalation there. I think exemptions ought to be granted which would take into account inflation and the erosion of the dollar. I leave that thought with the minister in the hope that he will bring the system up to date and rectify the erosion that is taking place every year, so that in the future people will be treated as nearly as possible in the same way as when this bill is passed.

Mr. Mahoney: Mr. Chairman, I am afraid the number of unanswered questions I have accumulated may outrun the opportunity that I will have to answer them in 20 minutes. At this time, I should like to answer at least a few of them. Perhaps I may sufficiently anticipate the points of the hon. member for Fraser Valley West that he will not feel called upon to exercise his talents of oratory.

Some hon. Members: Oh, oh!

Mr. Mahoney: That is most unlikely, however. Perhaps the wish is father to the thought.

The matter of tax credits has been raised again by numerous speakers. I ought to say that this point was investigated thoroughly by the Standing Committee on Finance, Trade and Economic Affairs when it was considering the white paper proposals. A document submitted to that committee under date of January 23, 1970 and pre-

pared by the Department of Finance for the information of the committee, made a number of points worth noting. Although the figures, Mr. Chairman, refer to the exemptions and rates as proposed in the white paper, the point is equally valid at present and a comparable set of tax credits and adjusted rates could certainly be prepared in connection with Bill C-259.

The paper presented to us made the point that both tax credits and exemptions are methods by which amounts of income can be excused from taxation. An exemption can be viewed as adding a zero rate bracket to the bottom of the rate schedule. A tax credit can be viewed as transforming the bottom rate bracket or brackets, or parts thereof, into a zero rate bracket. The paper prepared a series of comparisons of a tax credit system showing tax credit for a single taxpayer of \$210 and then an additional tax credit of \$253 if he were married. It demonstrated that, point for point in the various income brackets, these were precisely the taxes that would have been paid by a single taxpayer or by a married taxpayer without dependent children, if one were to compare them to the schedules appended to the white paper.

The paper also pointed out that under a tax credit system, if the government wishes to provide that no one with an income of \$1,400 or less will pay income tax, it must provide a credit which equals the tax on the first \$1,400 of income. If a rate of 50 per cent had been applied to the first \$1,400, the tax on \$1,400 of income would have been \$700 and the tax credit would have been \$700. If the rate applied to the first \$1,400 of income had been zero, the tax credit would also have been zero. In summary, the document said, and I quote:

—the rate or rates applied to the first \$1,400 are meaningless in that no one pays them. In practice, only the rates which apply to income above that level affect the amount of tax that is actually to be paid, and these rates can be adjusted in either regime.

So, again, I suggest to the committee that the easy suggestions hon. members have made in their general submissions that the tax credit system is more flexible and fairer to low income taxpayers than the exemption system are simply superficial observations completely without foundation. Hon. members cited no authority for their submissions. The important thing is not whether we introduce a tax credit system or a tax exemption system. The important thing is the rates that are applied to income upon which tax is actually paid, no matter whether that income is above the income which is excused from taxation, as under the exemption system, or whether it is that tax on income is net after the deduction of tax credits, as under the proposed tax credit system that hon. members opposite have been discussing. There is nothing magic about the tax credit system. The exemption system that this government has decided to remain with certainly gives the same opportunities for flexibility and fairness.

The hon. member for Edmonton West raised a number of points yesterday, and I want to refer to them. First, the hon. member referred to subparagraph 110(1)(c)(iv) and said:

At the present time there is difficulty in interpreting those words. Some assessment officers indicate that a taxpayer or a dependent must be confined to bed for a period of 12 months prior to entry into a nursing home if any nursing home expenses during that 12 months in the taxation year are to be claimed or allowed.