

Private Members' Business

five, six or ten different accounts. The exemption would apply to the full income no matter where it was.

• (1830)

While I have some serious concerns about the bill, I generally speak in support of it because the investment income exemption is one of the few tax initiatives that would reach out and touch most Canadian citizens, including my constituents of Erie, rather than just a select group of investors.

Taxpayers are crying out for tax relief and tax reductions, and understandably so. This initiative could be a possible means of partially satisfying these demands.

Mr. Patrick Gagnon (Parliamentary Secretary to Solicitor General of Canada, Lib.): Madam Speaker, contrary to the private member's Motion M-497, the Government of Canada should not support the elimination of personal income taxes on interest from personal savings accounts when the amount of interest is \$1,000 or less.

As hon. members may remember, before 1988 individuals were allowed to claim a deduction of up to \$1,000 of interest income in computing taxable income. This interest income deduction existed at a time of high inflation as an approximate method of providing some allowance for income tax paid on the inflationary component of interest.

Inflation is now very low. Therefore this rationale would not apply today. In addition, the elimination of interest income deduction was one of a number of base broadening initiatives introduced as part of the 1988 tax reform. Those measures made possible a reduction in tax rates and the enrichment of certain tax credits.

The elimination of interest income deduction for 1988 and the subsequent taxation years was largely compensated by a \$1,730 increase of the basic personal amount.

Therefore it would be inappropriate to restore this deduction particularly at a time of very low inflation. The federal revenue cost resulting from allowing a deduction of up to \$1,000 of interest income for income tax purposes would be very high; in the order of \$1 billion per year.

Because of the fiscal situation of our country we simply could not afford to make such a change without making up lost revenue. This lost revenue would therefore have to be made up through a general tax increase, an increase in taxes across the board. Most of the burden would fall on the shoulders of the average income Canadians while the deduction would benefit only most higher income individuals.

The bulk of the efforts of the government on the income tax side since coming to office in the fall of 1993 has been directed at ensuring the tax system is fair. A number of tax advantages that did not meet the standards of fairness Canadians expect

were eliminated in the 1994 and 1995 federal budgets presented by the Minister of Finance.

Let me highlight a few of those more important changes that have contributed to making our tax system fairer. As hon. members are aware, the federal budget of February 22, 1994 proposed a number of personal income tax measures. First, the \$100,000 capital gains exemption was eliminated. This exemption largely benefited high income filers, and there was little evidence that it encouraged investment and job creation as it was first intended to do.

The tax exemption for premiums related to the first \$25,000 of coverage under employer provided life insurance plans was also eliminated. This measure ensures individuals with employer paid life insurance are not treated more favourably than those who purchase life insurance out of after tax income.

The government did not limit its elimination of tax preferences to those preferences that affect individuals. A number of tax measures affecting businesses were also introduced in the government's first budget. For instance, the deduction for meal and entertainment expenses was reduced from 80 per cent to 50 per cent of eligible expenses. This change makes the tax system fairer by reflecting the significant element of personal consumption involved in these or such expenses.

• (1835)

In addition, Canadian controlled private corporations with capital of \$50 million or more are no longer eligible for the small business deduction and the enriched research and development credits accorded to small businesses.

The government's commitment to tax fairness did not end with the tabling of its 1994 budget; quite the contrary. The federal budget tabled February 27 announced more steps the government was taking to make the tax system fairer. For example, it was announced that the tax deferral advantage enjoyed by individuals with business or professional income resulting from their ability to select their own year end for tax purposes was being eliminated.

As other Canadians, individuals who begin to earn business or professional income will have to report their income on a calendar year basis.

[*Translation*]

Moreover, the 1995 budget eliminated some of the tax benefits from family trusts. The government repealed provisions allowing the postponement of the implementation of a rule requiring a deemed disposal of assets after 21 years.

Our efforts to make our tax system fair did not start and do not end with budgets. The proof of that is the measures announced by the government in December 1994 to prevent the erosion of the tax base brought about by the active promotion of abusive