Capital Gains and Losses

4.10 While we do not believe that the taxation of capital gains is wholly desirable for a country such as Canada which continues to be dependent on non-resident capital to finance its economic growth, we agree with the Government's conclusion that some form of taxation is appropriate to ensure that the burden of tax is more fairly distributed and to lessen some of the uncertainties under the present law.

4.11 However, the form of tax must be such that it would make some allowance, direct or indirect, for the effect of inflation and would not seriously impair the savings habits of Canadians nor limit Canada's ability to attract non-resident capital. We envisage that this tax would have the following features:

1. A distinction would be drawn between

   (a) short term gains and losses, which are usually of a speculative nature and contain little or no element of inflation, and

   (b) long term capital gains and losses.

   Short term gains and losses would be includable in income in full but only one-half of any long term gains or losses would be taken into account in computing taxable income.

2. Gains (or losses) would only be "taxable" when realized (or sustained), subject to the introduction of deemed realization provisions that would apply on death or when property is "gifted"-- assuming that death taxes and gift taxes are withdrawn, as discussed below. These deemed realization provisions would obviate the necessity for the five year revaluation rule proposed in the White Paper.