

*Income Tax Act*

Surely there can be no doubt that this legislation is in the public interest. The government has repeatedly and emphatically pointed out that it is prepared to take full responsibility for this bill. The government has indicated that there are several areas which are being actively studied and which will require further action in future years. In particular, the Minister of Finance (Mr. Benson) has mentioned the representation concerning the deemed realization of a capital gain on gift or bequest of property other than cash to charities and other exempt organizations. He has pointed out that capital gains will accrue very slowly after the start of the new system and that amendments made within a year should be quite satisfactory in that regard.

I am especially interested in this matter because I have received representations from several groups and organizations. I believe a change will be needed in the future. However, when we look at the mess that has developed in the United States, and I understand that a bill one-fifth the thickness of Bill C-259 was required to correct the unfair advantage people took of the capital gains provision in that country, we must move cautiously. No organization is going to be affected by this for at least the first year or so. When we make a change in this regard, we should do it carefully in order to avoid the pitfalls which have developed in the United States. The minister also indicated that the deferred profit-sharing plan and passive income provisions will require further action in the future. What we are saying is that to amend the entire Income Tax Act is an on going process, although this bill represents the most massive change that has ever taken place in our income tax law.

Let us concentrate on the measures which are going to have a much more immediate and pronounced effect on the Canadian people. Members are well aware that with this legislation one million low income persons will be taken off the tax rolls and that 4.7 million more Canadians will have their taxes reduced. Focusing on the individual aspects, we see increased exemption for single persons from \$1,000 to \$1,500 and for married persons from \$2,000 to \$2,850. Hundreds of thousands of Canadians 65 and over will get tax relief through the new \$650 exemption and removal of the guaranteed income supplement from taxation. There are now 1.7 million old age pensioners in Canada and a substantial number of those will pay less tax because of the provisions of this bill. Among the many advantages to the individual, is the \$500 deduction for child care expenses and the deduction of up to 3 per cent of income for employment expenses. This child care benefit is not limited to low income families only, but will be available to any family if the wife chooses to work either to supplement the family income or to pursue a career.

• (3:20 p.m.)

Deductions for medical expenses will be broadened to include care in institutions for the physically or mentally handicapped and equipment or devices prescribed by a doctor. In respect of deductible gifts to charity, the allowance is to be increased from 10 per cent to 20 per cent of the taxpayer's income. One of the government's objectives in this tax reform bill was to make a serious attempt to recognize the growing mobility of Canadians and their

[Mr. Foster.]

changing patterns of daily life. The expense of moving from one job to another or the expenses of a student, upon graduating from university, in moving from the college to a new job will be deductible under this bill. These moving expenses will include a wide range of costs including travel, transport or storage of household goods, the cost of meals and lodging for 15 days or less, and the cost of cancelling a lease or selling a home.

Let us now look at some of the more controversial issues in Bill C-259. What about the concessions given to co-ops, credit unions and caisses populaires? The government has actively communicated with these institutions and has come up with a satisfactory approach to their problems. The capital employed concept has been abandoned and co-operatives will no longer be taxed on income from business with members, which is distributed to members in the form of patronage refunds. The limit of deductibility from patronage dividends therefore has been removed. In its place, the government has proposed a 15 per cent withholding tax on patronage dividends in excess of \$100 paid to a member in any year. This tax of course would be refundable to the extent that it exceeded a taxpayer's tax liability.

This new approach will have the following results. Recipients of patronage dividends will be treated as before. If the patronage dividend relates to the recipient's business, it will be included in his income for tax purposes. In other circumstances, it will not be taxed. The withholding of tax by the co-operative will permit the government to administer the system efficiently and yet obtain the appropriate result depending on the character of the patronage dividend in the hands of the recipient. This change will provide substantial relief to co-operatives concerned about their treatment under the new act.

In 1970, there were 2,469 co-operatives in Canada constituting a total membership of 1,690,000. I am sure all hon. members on all sides of the House have received many representations from the local co-operatives in their constituencies. The government has introduced an amendment, the effect of which will be to tax the income of a credit union or caisse populaire at the rate of 25 per cent so long as the reserves in excess of those allowed against income do not exceed 5 per cent of deposits and share capital. This will be accomplished by an adjustment of the small business deduction. This special right to use an effective corporate tax rate of 25 per cent might not in itself be sufficient for small credit unions or caisses populaires which would need a reserve in excess of 5 per cent for financial stability. Accordingly, the small business deduction available to other corporations will continue to apply so that a credit union or caisse populaire can build up \$300,000 of reserves out of income taxed at 25 per cent whether or not such reserves exceed 5 per cent of deposits and share capital. The government believes that in this way credit unions and caisses populaires will be able to obtain the appropriate entitlement to the small business deduction, and thereby enjoy the benefit of a 25 per cent rate of tax on an appropriate amount of income. This amendment will affect 5,655,902 members in 4,417 credit unions across Canada.

On the subject of capital gain, surely it is clear that such a tax is needed both because it is fair that a levy should be placed on this income and because the extra revenue will