

The Economy

However, I want to remove uncertainty for businesses which are currently in the process of or are contemplating reorganizations. I am thus announcing that the pre-budget rules on corporate reorganizations, with the exception of the changes contained in the June 28, 1982, ways and means motion, will continue to apply after the end of this year. As well, any new proposals arising from ongoing studies and consultations will not apply to reorganizations that are substantially advanced on the date that new proposals are announced.

I have one adjustment to announce concerning taxation of the investment income of individuals. My predecessor referred a proposal to restrict tax deductibility of interest expenses to a committee of prominent tax professionals. That proposal would have limited tax deductions for investment interest expense to the amount of a person's investment income that was taxable in the year. I have received the report of the committee. Their recommendation is not to proceed with the proposal and I accept it.

However, in any move to eliminate tax on the inflation-related portion of capital gains or interest income, it may well be necessary to enact rules to ensure that taxpayers would not also be able to obtain a tax deduction for the inflation-related portion of borrowing costs they incur to make the investment. This matter will be further reviewed.

On April 21 my predecessor announced disbursement rules for private charitable foundations that met the objectives of both the foundations and the Government. These rules require the distinction to be maintained between charitable foundations and charitable organizations. In many cases this distinction is unnecessary. Accordingly, I am examining the possibility of applying the same rules to both charitable foundations and charitable organizations. I propose to make public later this fall draft legislation which would apply the rules proposed to both types of charities and to delay passage of the legislation until consultations with interested parties are completed. In any event, the new rule would apply only in taxation years commencing after 1983. However, the special rules concerning non-qualified investments, as announced on April 21, will apply at that time to all charities.

[Translation]

Mr. Speaker, I would like to comment briefly on the recent report of the Ministerial Advisory Committee on Inflation and the Taxation of Personal Investment Income, chaired by Mr. Pierre Lortie, the President of the Montreal Exchange. The Committee's report was released to the public on October 20. I wish to thank its members for the considerable and impressive work they have done on important tax issues. I have found the consultative process and the Report itself most useful. The Committee has supported the general thrust of the government's proposals to base taxation of investment income on real ability to pay. It has stressed the paramount need to reduce inflation. It has recommended that the Registered Shareholder Investment Plan proposal to exempt the inflation portion of capital gains from taxation be proceeded with in a modified form. It has recommended against adopting a proposal to

adjust for tax purposes the interest income of individuals on funds lent to farmers, small business, and homeowners.

Since early June, interest rates have declined by five percentage points and are now at levels comparable to what they were two years ago. As we persevere in our efforts to reduce inflation, they will go even lower. Moreover the federal government and many provinces have introduced assistance programs for homebuyers, mortgage renewers, small business and farmers. I have just announced additional support for housing. In the light of these facts, I accept the Committee's recommendation that the proposal for indexed term deposits and indexed loans not be proceeded with.

[English]

I do not need to be persuaded of the crucial importance of encouraging the revival and growth of equity markets in Canada. I therefore intend to proceed, as recommended by the Committee, with the Registered Shareholder Investment Plan under which tax will apply only to the real portion of capital gains on common stock of public companies.

• (1630)

In my judgment, it is important to ensure that the details of the approach the Government will put forward take into account the Committee's suggestions and not prejudice any possible move to adjust the taxation of business income for inflation. I also believe it is desirable to work out the full details of this approach in the form of draft legislation available for public comment prior to implementation. It is my intention to table such draft legislation before the end of this year.

The Committee has recommended that a major study be undertaken to determine the desirability of adjusting the taxation of business income for inflation. I am well aware of the distortions and disincentives to investment that can arise when the tax system does not recognize that inflation affects the measurement of business income. I am therefore receptive to this recommendation and will consider how such a study could be conducted.

To sum up on tax issues, the over-all effect of the changes I have just announced, exclusive of the Registered Shareholder Investment Plan, will be to reduce federal revenues by \$45 million in the current fiscal year and by approximately \$300 million on a full-year basis. This financial impact is included in the financial statement I presented earlier. The revenue effect of the Registered Shareholder Investment Plan will depend on the exact details of its structure and when it comes into effect.

I will be releasing soon the draft legislation on the taxation of investment income and life insurance. I plan to table in the first two weeks of December final legislation to implement the proposals from the November and June budgets, as revised today. The legislation has benefited significantly from comments that have been made on the draft that was made public last June. I thank those who took time to send comments to me, my predecessor and my officials.