

Income Tax Act, 1986

They went on to argue that it is difficult to justify the exemption of capital gains from taxation. I will not repeat all of their arguments because I do not want to spend all of my time quoting. However, let me bring Members of Parliament up to date.

Immediately following the May 23 Budget, *The Globe and Mail* reported that it had in its possession a document from the Department of Finance that argued that changes in capital gains taxation might well have only a small effect on the ability of corporations to obtain new equity financing. That argument was not made by members of the Opposition but by an analysis done within the Department of Finance itself.

Many tax experts argue that the removal of the capital gains tax will do no more than encourage a great deal of speculation in the real estate market and that that speculation will drive the price of land up. If an increase in the price of land is coupled with the abolition of the Registered Home Ownership Savings Plan, a program which helped young couples save money, how are we going to help young people to acquire the homes they believe they have a right to acquire at some point in their lifetimes as Canadian citizens?

In my view, the capital gains tax exemption is nothing more than a generous windfall for the rich of Canada. It does not require the rich to invest any further if they do not see fit to do so. Within Bill C-84, there is not even a minimum requirement that the capital should come from Canadian investment within Canada. One tax analyst from Coopers & Lybrand said that he was surprised that Ottawa made the exemption so wide open rather than aiming it toward investments in Canada that create jobs. He went on to reflect further and said that he did not think that we could solve Canada's unemployment problems by exempting capital gains from taxation in any event.

I believe we must conclude that the capital gains tax exemption is a very special gift from the Government to its well-to-do friends and supporters. Of course, the Government has the right to do that. I do not argue with that. However, I believe that that is the way this measure is seen by the public. The Hon. Member for Kenora-Rainy River (Mr. Parry) drew to the attention of the House the fact that, according to the 1982 statistics, 63 per cent of the capital gains tax exemption will accrue to people who are earning \$50,000 per year or more, about 4 per cent of the tax-paying population.

I would argue that a fair, just and equitable tax system should be based on the ability to pay. That is not very profound, but I believe that that is what a fair taxation system should be. All sources of income which increase the economic power of the recipient, including capital gains, should be recognized in determining the tax base. If that sounds familiar, it is because that was a statement that was made by the Royal Commission on Tax Reform, the Carter Commission. Hon. Members will know that the Carter Commission was set up during the Government of the Right Hon. John G. Diefenbaker and reported during the time Mr. Pearson was in office. Finally, some parts of the Carter Commission Report were incorporated into a White Paper, the so-called Benson White Paper. There was extensive debate in the country, and certain-

ly a great deal of it in Parliament. As a new Member of Parliament at that time I remember being overwhelmed by all the lobby groups and special interest groups which wanted to protect their own special place within the tax system. Indeed, it was a very demanding period of time.

● (1250)

The tax reform measures which were finally introduced following the debate of the Benson White Paper can only be described as a partial tax reform. In no way was it complete. However, there were certain principles which were enunciated during that debate which I think are difficult to challenge. For example, it has long been accepted in Canada that a tax system should be based on ability to pay and that Governments should levy progressively more tax on higher income earners as compared to those who earn lower incomes.

We had a discussion earlier about marginal rates. It is always difficult to know where to draw the line between that which is fair and which must be done in order not to stifle initiative, innovation, and all of those other features which help a nation to grow and expand, and that which is unfair. We know that there is a strong concentration of capital gains in higher income tax brackets. Therefore, to bring back an exemption for those people runs directly contrary to the most basic principles of tax reform. I think we have taken a retrograde and regressive step in reintroducing this exemption. I regret it very much. It creates further inequities in our tax system. It adds more complexities to a tax system which my colleague, the Hon. Member for Saint-Henri-Westmount, has already described as unfair in many of its aspects and one which is certainly confusing to most taxpayers. After all, there is a whole profession out there of people who simply live off the income tax laws because only a very small handful have the time or the inclination to understand them as fully as they should.

I wish to come back to the Benson White Paper, which the Hon. Member for Levis mentioned in his speech. I admit that I was a supporter of this particular measure. I do not deny that for one moment. The White Paper expressed a great deal of sympathy with Mr. Carter's recommendations for the taxation of capital gains. I think it is probably a good idea to go back to that White Paper. Mr. Speaker, you know very well what a controversial document it was. Here is what the document stated in part, and I remind Hon. Members that it was stated in 1969:

A Canadian who is able to realize a substantial stock market profit or real estate gain clearly has an increased ability to pay; he is better able to pay for a new car, or to pay for stocks and bonds, or to pay income taxes, than is his neighbour who has not had such a gain. At present, Canada does not tax this ability to pay. As a result, some very well-to-do Canadians pay far less tax than others with similar abilities to pay, and less even than others with much lower incomes (all because these particular Canadians receive a large part of their income as 'capital gains'). Moreover, it has been possible for the sophisticated to arrange their transactions in such a way that they receive as capital gains amounts that would have been income had the transaction been carried out in the normal manner.

The Acting Speaker (Mr. Paproski): I regret to advise the Hon. Member that his time has expired. Are there questions or