

Income Tax

I understand the West Germans allow people who hold property, utilities or buildings for ten years to pay no capital gains tax, the assumption being that a person who buys something uses it to create jobs or to carry on business. If he keeps it for the full ten years, it is presumed that he uses it for the benefit of the community.

I would like to ask the minister if he has any intention of instituting any kind of relief whereby inflation could be taken into account in assessing what the rate should be? Second, with regard to farmland, can there not be any method whereby a federal assessment from the beginning of 1970 could be arrived at when the tax is applied? I certainly think that this tax, which yields so little money, is a deterrent to investment in any property or business that would be of benefit to the community.

● (2140)

Mr. Macdonald (Rosedale): Mr. Chairman, one of the reasons for bringing only half of the gain into taxable income is to recognize the fact that there may be some element of inflation involved in the disposal cost. As well, of course, the tax brackets are indexed, so to that extent the amount of inflation will be minimized, although not totally. A taxpayer in that situation has the advantage of engaging in arrangements for an income averaging annuity so as to forward average the tax.

Mr. McKinnon: Mr. Chairman, I should like to ask the minister a question or two on the capital gains tax. Has the minister, in consultation with the Minister of State for Urban Affairs, considered restoring the beneficial scheme that was in effect a few years ago concerning apartment construction? A person could trade up in the apartment field without having to pay the capital gains tax which was only levied when he eventually got out of the apartment business. This enabled him to continue with the construction of places for people to live in without facing a disastrous tax bill for every new project. Was some consideration given to reverting to that? I ask this because in the present situation the types of housing on which subsidies are being paid make it extremely difficult when the subsidy period runs out after say, two years, and suddenly apartment suites are quite expensive. It makes it difficult for the landlord, and even more difficult for the tenants.

Mr. Macdonald (Rosedale): Mr. Chairman, unless I am mistaken, the hon. gentleman is thinking not so much of capital gains tax as the recaptured depreciation. I am advised that the rule has been re-established to enable assets to be continued as one stock for the purpose of carrying forth depreciation.

Mr. McKinnon: I wonder if the minister would care to elucidate on the part about the principal dwelling. How many principal dwellings can a person have? Say he has a summer home in the country and a condominium in the city, or he is a person with business in two parts of the country and sets up a home in each part. Can they both be counted as principal dwellings by the same person?

Mr. Macdonald (Rosedale): One only, at his option.

Mr. Stevens: Mr. Chairman, in response to the hon. member for Dauphin, if I understood the minister correctly, he indicated that he felt there were two things that compensated for the fact that many times when people are required to pay on a so-called capital gain they are actually paying on an inflated gain. The minister said that was all changed by the fact that only half the gain was taken in and, second, that eventually the tax paid is indexed. I wonder if the minister could be more explicit in view of the fact that inflation has been around 35 per cent to 40 per cent since the capital gains tax evaluation date became operative. Has his department done any study to see how his figures work out? If you only take half the gain plus the indexing as far as the income tax itself is concerned, it means that in effect you are not paying tax on a capital gain. It is nothing more than taxing an inflationary gain in real buying power.

Mr. Macdonald (Rosedale): Yes, Mr. Chairman, there have been internal analyses and the view is that it is still satisfactory in relation to capital gains.

Mr. Stevens: To be more explicit, Mr. Chairman, is the minister saying that there is not an element of confiscation in the present capital gains tax to the extent that it is taxing an inflationary gain and not a real gain as far as the taxpayer is concerned?

Mr. Macdonald (Rosedale): We do not believe so, Mr. Chairman.

Mr. Stevens: I wonder if the minister has any figures to give us. A ready calculation of the inflationary impact of a 35 per cent increase in the value of a \$10,000 investment would appear to indicate that if you are required to pay capital gains tax on half of \$3,500, which is \$1,750, and have that added to your income, it can only be confiscation when all that gain is reflecting is the inflationary gain since you acquired that, let us say, on valuation day.

Mr. Macdonald (Rosedale): We arrived at the conclusion that it is not so, Mr. Chairman.

The Chairman: Shall clause 14 carry?

Clause agreed to.

Clause 15 agreed to.

On clause 16.

Mr. Knowles (Winnipeg North Centre): Mr. Chairman, I should like to ask the minister a few questions relating to clause 16, with particular reference to subclause (3) thereof. Perhaps before I ask my question the minister would like to give an explanation of clause 16.

Mr. Macdonald (Rosedale): The amendment in the first paragraph is consequential upon the introduction of the new subsection 61.1(1) by subclause 19(1) which will be reached shortly, with respect to income averaging annuity contracts.