

*Income Tax Act*

All the arguments put before us in the past regarding the prevention of the sell-out of Canadian industries are now being put to us again. These arguments are no more convincing than they ever were. We have had a chance to examine the background of these arguments and we know what they mean. One of the benefits of having been a member of the committee which examined the white paper on taxation was the privilege of travelling around the country, speaking to a lot of people and learning how they feel about our tax system. One of the most impressive presentations to the committee was made by a chartered accountant and a farmer from British Columbia. I am not sure, but I believe his name was McIvor. I have not had an opportunity to look at it, but it was an impressive brief. When he first made his argument, I believe members of the committee were saying, "Oh no, this man has to be a bit of a kook". However, he was a chartered accountant and could not be dismissed that lightly. He also had been president of the British Columbia association and this made it even more difficult to dismiss him. His performance, and the logic of what he was saying, made it impossible to ignore what he was telling the committee. This man was making the argument, perhaps more effectively than I am at the moment, that our corporation tax has failed to achieve its purpose. He argued for a form of a value added tax in which one would pay for the resources as they were used.

• (5:10 p.m.)

There are two ways we could move. Both of them, in my view, are more desirable and effective than the suggestion before us. Certainly, the government has had sufficient time to examine the alternatives to corporation taxation, rather than following the discredited principles we have before us at this time. One way in which we could have moved is that suggested in the Carter royal commission report, and that is the integration of personal and corporate taxation. The government toyed with the integration idea. The white paper suggested integration with a capital gains tax. The effective integration would have been to remove, to some extent, the present corporate tax structure and replace it with something else. This would have had the great advantage of simplifying the tax system and bringing all sources of income into the tax base because the integration proposal of the royal commission called for a full capital gains tax. The capital gains would have been added to the base and been calculated on that level.

The government's argument, as I understand it, is that full integration at the present level of corporation tax would be too costly, and would deprive the government of the revenue it requires; but that is true only if we leave the corporate tax at the present rate and there is no reason for that. We could have adjusted the corporate tax rate in order that the government could obtain the revenue it would require and have the degree of equity, fairness and simplicity that was available through the integration proposal that was not accepted. The government's ludicrous proposal in the white paper of having half integration has all the problems of a half capital gains tax, as well as the problem of having the whole thing fouled up with two systems running side by side. Also it would fail to obtain the full benefits, if there are any, from the present system as well as fail to get the real benefit from

the integration proposal. I do not know why the government brought in the half integration system, unless it was deliberately looking for a way to destroy that proposal, but certainly it came under heavy fire and the government withdrew it.

When one reads the Carter commission report, it emerges quite clearly that the Carter commission, had all industry in Canada been Canadian and had all the owners of industry in Canada been Canadian, probably would have recommend the abolition of the corporation tax and the substitution of a more effective way to tax corporations by taxing the resources they use. The reason this could not be done is that such a system would confer a substantial benefit on the United States treasury and on United States holders of property in Canada. Because we have so much foreign ownership, even an attempt to design our tax system becomes a nightmare. What might be an acceptable and perfectly valid approach becomes unacceptable and we are not able to carry it out because of the high degree of foreign ownership which exists in Canada.

If we should go to a value added tax, and many European countries are now moving in that direction and there has been some discussion in the United States of moving in this direction, there would be a tax on the amount of goods corporations use in the manufacture of whatever they are doing or on the services they provide. This would take care of many of the troubles we have in our tax system. We have had tremendous discussions concerning how we should handle the non-taxable benefits of people who work for corporations or who are self-employed. How should we handle the expenses of the car, the convention, the hotel, the meals these people consume or the entertainment they provide. Every proposal which has been attempted has broken down for one reason or another. I suggest that with a value added tax these things would be of less concern. If they wanted to do more advertising or more entertaining, they would pay for it and it would not be deductible from their future corporate tax. In fact, society is subsidizing all kinds of marginal things. Non-taxable fringe benefits have been subsidized in the past.

At this time, I do not wish to become involved in an extended debate on either the integration system or the value added tax system. First of all, there is not too much time and second, with the exception of the integration proposal, we certainly do not know too much about the value added system at this time. All I am trying to point out is there were alternative approaches which might have been taken to the whole problem of corporation tax, and in the face of the failure of the corporation tax to really accomplish some of the purposes we set out, the government should have seriously discussed these other proposals rather than rejecting them, I think to some extent out of hand, because they did not conform to the traditional pattern. The government, in fact, did not seem to have enough courage to really want to bring about tax reform. It wanted to use the words and talk about tax reform, but there is really no instinct or no commitment on the government side for a genuine tax reform system for Canada.

So, we are continuing with a system of corporation tax that retains some shabby concepts. Under the legislation