senior with $100,000 of income, the same deduction would be worth $910—about twice as much.

Exemptions reduce the amount of income that is subject to tax. This makes their value greater for those with higher incomes because higher-income people have higher tax rates. Credits reduce tax payable. They are worth the same regardless of income.

We will replace exemptions with tax credits. In the case of the age credit, it will be worth $550 in tax savings to all seniors.

The new credits will ensure that the vast majority of Canadians pay lower income taxes.

This will mean, for example, that nine out of 10 Canadians 65 and over will pay less federal tax in 1988. A typical elderly married couple with $25,000 of income will pay about $650 less.

Tax credits also support the objectives we set in the February, 1986, Budget—to target assistance more effectively to those with lower incomes and reduce the after-tax value of transfer payments to those with higher incomes. Converting exemptions to credits does just that, while maintaining universal access to family allowance and old age security payments.

[*Translation*]

The personal income tax reforms reflect a number of priority areas for this government.

We all want our younger Canadians to receive a good education. This is critical to Canada's future. The new education and tuition credits can be claimed either by the student or a supporting spouse, parent or grandparent. This will substantially augment the availability of tax assistance for students pursuing a post-secondary education.

Our communities are strengthened and enriched by the contribution of volunteer organizations. The new tax credit for charitable giving has been designed to provide a substantial incentive for donations, particularly for low-and middle-income earners.

The tax reform proposals will continue to help Canadians become more self-reliant by saving for their retirement. The fairer and more flexible system I announced last October will not be changed. However, the $15,500 limit for RRSP contributions will be phased in more slowly.

[*English*]

Tax reform recognizes the important role of agriculture in Canada. The farm community will continue to benefit from the existing $500,000 capital gains exemption for farmland. I am also proposing new rules to increase certainty about the tax treatment of farm losses. These rules will provide objective tests to determine when farm losses should be restricted for tax purposes.

Canadians have created 840,000 jobs since September, 1984. Much of this is the result of the efforts of individual men and women, each striving to build and grow in their own way.

To reinforce the job-creating potential of the small business sector, I am proposing that the $500,000 capital gains exemption for shares of small businesses become effective on January 1, 1988 rather than January 1, 1990.

• (2020)

This Government has encouraged small business, risk-taking and entrepreneurship, and will continue to do so.

But the most effective tax incentive is lower tax rates. Lower rates mean more reward for that extra effort.

And to provide that incentive for all taxpayers, we must restrict and remove a number of tax deductions and exemptions.

Self-employed Canadians are entitled to deduct expenses they incur in earning income. But some deductions are for expenses which represent an element of personal consumption. To recognize this, the deduction for business meals and entertainment will be restricted to 80 per cent of expenses incurred. In addition, where home offices and automobiles are not used exclusively for business purposes, deductions for these expenses will be limited.

The lifetime capital gains exemption for all property, other than qualifying farm property and small business shares, will be held at the 1987 level of $100,000. To reduce tax shelter possibilities and to better match deductions with income, capital gains will qualify for the lifetime exemption only to the extent they exceed net investment losses after 1987. This will not reduce an individual's lifetime exemption limit.

The taxable portion of capital gains will rise from one-half to two-thirds in 1988 and three-quarters in 1990. The dividend tax credit will be reduced to directly reflect the reduction in the corporate tax rate. The tax system will continue to give preferential treatment to capital gains and dividends in recognition of the risks associated with investment.

Currently, those who receive investment income or make extensive use of tax preferences pay consistently lower taxes than others. After reform, they will pay more. About 1.5 million households will have an average tax increase of about $665. They will continue to pay lower average effective rates of tax than those with similar income derived mostly from employment. But the gap will be narrowed.

CORPORATE INCOME TAX REFORM

Corporate income tax reform will meet three major objectives.

The jobs of many Canadians depend on a corporate income tax system that is competitive with other countries, particularly the United States. Tax reform will improve the overall competitive position of Canadian business and industry.

Tax reform will return the profit motive to investment by rewarding success. It will encourage investment decisions to be based far more on the imagination and creativity of research,