

Income Tax Act

are involved in parts of clause 1 and some of which are involved in other parts of the bill.

Clause 1 in effect involves the entire Income Tax Act, and if it is agreeable I would suggest we hold further discussions as to the method of breaking it down. I am in agreement generally that we should break it down because of the number of clauses involved.

Mr. Knowles (Winnipeg North Centre): Mr. Chairman, apparently it will not be necessary to take part in an extensive argument at this point, as I thought might be the case, because there seems to be general agreement between the Minister of Finance and the hon. member for Edmonton West. I share their views. The gentlemen at the table have no doubt been puzzling over this bill and are aware of the fact that clause 1 is 596 pages in length and about 2½ inches thick. It looks much like the telephone book of the city of London, England. It includes about 257 clauses in respect of a new act and the number of sub-clauses must be legion several times over. In fact, what we will have before us, when you call clause 1, is a proposed new Income Tax Act.

• (3:00 p.m.)

I realize that one might find precedents for the proposition that technically what is before us is just clause 1 of the bill, and therefore we should debate the whole thing all at once and vote on it all at once. But surely this is a case where common sense ought to prevail. After all, how could the rule of relevance be applied to the 596 pages of clause 1?

I therefore suggest that we first of all agree to have a general discussion, and then at some agreed point we decide that the general discussion has been concluded and we then proceed to deal with the 257 clauses of the new Income Tax Act which will be enacted by clause 1 of Bill C-259. I agree with the Minister of Finance that the details of this agreement can be arrived at by discussion through the usual channels, but I think it will be useful if it is now understood that this common sense procedure is to be adopted.

The Chairman: The Chair has no difficulty in agreeing that we would not want to proceed by calling clause 1 and proceeding to deal with it in its entirety. I gather there is general agreement that there is to be a round of discussion. The hon. member for Edmonton West used that terminology, as did the minister, and the Chair would like clarification of that point. Do hon. members mean by that, only one speaker from each party?

Mr. Lambert (Edmonton West): No.

The Chairman: Then it is agreed that there will be a general discussion on clause 1 and that during this interval the leaders of the parties will discuss the procedure we might adopt following that general discussion. If that is the general understanding, the Chair will recognize the Minister of Finance.

Mr. Benson: Mr. Chairman, at the start of the committee's consideration of Bill C-259 I should like to discuss briefly amendments the government is ready to make at this time. With the permission of the committee I will today table substantially all the amendments that the

government plans for clause 1, which covers the majority of the tax reforms.

This procedure is intended to allow hon. members time to study the amendments in advance of their formal introduction by the government. The government is in the process of completing several amendments it will propose to the remaining clauses and I intend to table them as soon as possible. Aside from these, there may be further amendments the government will wish to propose as a result of representations which have been received only recently and which are still under consideration. Most amendments can be left for discussion later, but there are two areas of change I will describe because of the attention the issue has received so far during the debate.

Both inside and outside the House the proposed tax treatment of co-operatives and credit unions has received a good deal of discussion. Under the bill as drafted, patronage dividends and interest rebates cannot reduce the income of a co-operative or a credit union below 5 per cent of members' capital employed. The government amendment would provide that patronage dividends could not reduce income, after interest to members, below the lesser of, first, 5 per cent of members' capital employed as proposed in the bill and, second, one-third of the income before patronage dividends but after interest to members. This amendment will ease the impact of the new rules on co-ops and credit unions, particularly in years of low earnings.

In addition, the increase in tax resulting from the limitation on the deduction of patronage dividends and interest rebates will be phased-in over ten years by collecting one-tenth of the increase in the first year, two-tenths in the second year, and so on. This amendment will give credit unions and co-operatives time to adjust to the new rules. This phase-in will be included in the amendments to part III relating to the transitional rules. In addition, the government will propose an amendment to clarify that for credit unions interest on share capital is deductible.

Furthermore, we are proposing some amendments relating to the computation of the opening reserves of a credit union to more appropriately bridge the transition from exempt to taxable status. Representations have been made that credit unions cannot take full advantage of the small business incentive because of provincial reserve requirements. The government is continuing to give consideration to what change in the bill is appropriate to accommodate this special problem and I expect to be able to table next week an amendment dealing with this problem.

I would also like to refer to an amendment the government will propose with respect to the classification of shares of certain investment corporations as foreign property, within the meaning of section 206 as set forth in clause 1 of the bill. Investment corporations, as defined in section 130 in clause 1 of the bill, are special status corporations which, like mutual fund corporations and mutual fund trusts, are public investment vehicles for which substantial conduit treatment is provided by special rules in the bill.

To put investment corporations on a more equal footing with mutual fund corporations and mutual fund trusts, one of the amendments which I have tabled today will