

government incentives, past depreciation, exploration allowances and so on, and thus avoided being in a position to have to pay any tax.

We can talk about double taxation and how terrible it is, but we have an additional principle here, and that is that we have in a sense double avoidance. Unless the government is prepared to present in its budget some special mechanisms to catch up with the revenue which has been lost as a result of the use of this particular device, we will be asking the Canadian taxpayer—not the doctor or the lawyer who has his own particular loophole to take advantage of, but the average Canadian employee—to make up the difference between what the banks and borrowing companies should have been paying and what they will be paying for the next three to five years.

So I say to the parliamentary secretary that while I recognize—and I hope the Canadian people do—that it is only the negligence and the financial incompetence of the previous administration which brought us to this sorry state with respect to the use of income debentures and their abuse, it is up to the Government of Canada to recognize now that as a result of the decline in revenue which has resulted from the use of this device there has to be some special consideration given to a tax to be fairly distributed between lender and borrower—those who have taken advantage of this scheme—in order to bring their effective rate of taxation up to the level it should be.

There is an argument here. I think the parliamentary secretary is thinking about the answer, and he may be thinking that that is a form of retroactive taxation, but it is not if it is seen as being a special tax which will be imposed in the next budget in order to take care of a future vacuum created by past income debentures and term preferred shares. So we are not asking him to tax back money which has been lost already. We are asking him to think of the possibility of an additional tax to solve the problem over the next two or three years.

I think that his figure which coincides with my own with respect to the amount of money which has been lost, is very substantial. We have a figure in terms of the rate of taxation which is being paid by banks. We do not have a figure as to how the effective rate of taxation of borrowing companies has been lowered, but one could imagine that they, too, are taking advantage of this particular measure to lower their rate of effective taxation.

I think it important for the government not just to consider what has been done and the error of what has been done. The government should also consider the possibility of making sure that the loophole is plugged and that we are compensated for the three-year to five-year period that these term preferred shares have to run so that public revenues will not be depleted and the rate of taxation of other Canadians will not be accordingly higher.

Mr. Ritchie (York East): Mr. Chairman, the hon. member for Broadview-Greenwood spoke of the incompetence of the previous government in not making this change sooner. It had warnings in terms of the figures concerned, and obviously it

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could have made the change sooner. I have to agree with the hon. member in his use of the word “incompetent”, but I would add another word—“complicity”. The previous government was an accomplice in this process.

In the months between October and November of last year the total amount of term preferred share financing of this kind went up by \$2.9 billion. A little more than one half of that amount, \$1.5 billion, was the special financing of Petro-Canada which was brought in just to get under the wire of what the government itself knew it was going to do. In November of last year the total amount outstanding in this kind of security was just over \$10 billion. If one takes into account the Petro-Canada contribution and the Canada Development Corporation contribution, which is in the same category of a government-directed corporation, the total complicity of the federal government was about 20 per cent of the total.

The hon. member suggests that retroactive tax legislation should be considered. I know he suggested a way which he feels might escape the label, but in fact it would not. It would be retroactive legislation. Apart from the fact that retroactive tax legislation is wrong in principle and that no government should get into it—and certainly this government would not want to—I think there are some other factors which should be considered. One is the difficulty of picking out the bad from the good in what has been done. As the hon. member for Saint-Henri-Westmount mentioned earlier today, some of the financing which was undertaken through this route was legitimate and did fall within the original intent of this kind of arrangement. In the latter days much of it did not, of course, but even for those with whom one might quarrel in the latter days when this was ballooning, those were companies which were not taxable at that time, otherwise they could not have taken advantage of this arrangement.

It is very difficult, therefore, to see how the hon. member's suggestion could be made effective, because I have no doubt that some of those companies will not be tax-paying companies within the next two or three years.

The other saving grace—and I think to put things into perspective we should take account of this—is the arrangement of induced fast pay-out. That is why the measure taken to kill it extends the time limit to ten years, for instance, for term preferreds. Ten years is not attractive under this arrangement, and so the arrangements entered into were basically short-term—three years, five years and some of them on demand. The on-demand ones are already eliminated. Three to five-year terms are not, and so the effect of this will be very limited in time, and with all of the concerns a government properly should have about retroactive legislation and taking the other factors into account, I think the proposal, which is the proposal made by the previous government to correct this glaring gap, is as good as one could make at this time.

• (1420)

Mr. Breau: Mr. Chairman, I wonder if the parliamentary secretary can explain further what he meant by the word