allowances and old age pensions. From April 1, 1974, the rate paid for orphans' allowances will be raised to $125 per month for each orphan, and escalated annually in line with the formula for family allowances. A new allowance for dependent children of needy veterans will be provided and the qualifying age for the allowances now paid on behalf of a child or to an orphan, as long as that child or orphan continues his education, will be extended to 25 years. These changes will cost an additional $10 million in 1974-75.

● (2110)

MEASURES TO ENCOURAGE AND PROTECT SAVINGS

One of the most pervasive aspects of inflation is its eroding effect on the real value of people's savings. This budget includes two major measures to relieve this effect. The first measure recognizes that the increases in interest rates which have taken place, although substantial, do not offset the decline in the real value of people's savings when they are invested in interest-earning securities, particularly after tax. I therefore propose that, effective from January 1, 1974, the first $1,000 interest income from securities such as bank and trust company deposits, mortgages, Canada Savings Bonds and other bonds be deductible in computing the taxable income of individuals. The precise details will be found in the ways and means motion.

I am proposing a limit of $1,000 per year because I want to help the average person; I have no intention of allowing the wealthy members of our society to avoid paying their fair share of the tax burden. I believe that this proposal will be a very considerable incentive for average Canadians to save. This measure will reduce personal taxes by about $270 million in 1974.

The second measure concerns a particular debt obligation of the federal government which is the instrument through which nearly two million Canadians accumulate savings. I refer to Canada Savings Bonds. Nearly $10.5 billion of these bonds are outstanding and the interest yield does not now reflect current interest rates. In order to raise the average effective yield to maturity to 9 per cent, I propose to provide cash bonuses to the holders of these bonds. More specifically, bonds maturing before November 1, 1979, will receive one bonus, at their maturity. Bonds maturing after November 1, 1979, will receive two cash bonuses; an interim bonus on November 1, 1979, and a final bonus at the date of their maturity.

For example, the holder of a $1,000 Canada Savings Bond of the 1967-68 series will receive a first cash bonus of $220 in 1979 and a second cash bonus of $30 at maturity in 1980.

In all cases these bonuses, which will have the effect of raising the yield to maturity to 9 per cent, will be taxed at the lower effective rates applicable to capital gains. All other features of the Canada Savings Bonds, including their encashability on demand and the compounding of interest, will remain unchanged. The current issue of Canada Savings Bonds, which is still on sale, will of course carry the two bonus payments. Savers who may wish to acquire this bond will know that the return to maturity on it will be 9 per cent. Action is under way to inform holders of Canada Savings Bonds of the steps to be taken in order to obtain these benefits.

Among the many Canadians who save through interest-earning investments and who will benefit from these two measures, a large proportion are older, retired people who depend upon interest earnings from lifetime savings for a substantial portion of their income. These people who have saved for themselves should be given every encouragement.

As a final proposal affecting the savings of Canadians, I wish to broaden an important existing incentive for retirement saving. As members of this House are aware, registered retirement savings plans provide for postponing of tax, up to limits, in the savings accumulated for retirement. They have become a major vehicle by which Canadians anticipate their needs for income in the years after they stop working. I have felt that we should be more accommodating in allowing a taxpayer to make provision for his or her spouse through such retirement plans. I therefore propose to allow a taxpayer to contribute to a registered retirement savings plan for the benefit of his or her spouse to the extent that the taxpayer does not use the available deductions for his own plan. This measure will allow, for instance, a husband to forego contributing to his own registered retirement savings plan and to contribute instead to a plan for his wife who carries the burden of household and family duties. It will provide the same opportunity for a wife who is the income earner for the family and who is entitled to contribute to a registered retirement savings plan.

[*Translation*]

Tax Reform

I would like to take a few moments to speak about the continuing process of tax reform. One of my first priorities has been to see that the income tax legislation is improved as experience is gained in its application. As will be shown by the length of the Ways and Means Motions which I will be tabling tonight, this has not proven to be a small task. Nevertheless, it is a task we must face if the tax system is to work well, and fairly, in today's society. The amendments being proposed reflect experience gained in the application of the new tax provisions and many useful suggestions from the public.

One of my main concerns has been with the application of tax laws to corporate reorganizations. If we are to have vital and efficient corporations, it is important that the tax system not discourage reorganization intended to help our corporations to become more efficient and to adapt to the changing needs of a competitive society. During the past year, I have conducted an indepth review of the relevant provisions and have concluded that some changes are required. I am proposing that where it is evident that corporate changes are taking place for legitimate business purposes and not to avoid tax, the existing rules should be relaxed.

With the advent of tax reform in 1972, several new rules were introduced to permit certain types of pre-1972 corporate surpluses to be distributed tax-free to shareholders. A number of corporations are still having difficulty complying with the technical details of these rules. I am therefore introducing amendments tonight further to simplify these