incentive to ignore the interest they received when filing their tax return.

● (1825)

Several arguments can be made in support of my hon. colleague's motion. The exemption of the first $1,000 of interest income would promote savings. This is very important for those with relatively modest incomes. Often an investment in a savings account is one of the few investment opportunities readily available to a good number of people.

Under the existing system, by imposing tax on interest earned some consumers are more apt to choose to spend their income in the year it is earned because the interest earned on their already taxed income will be taxed should they save. "Spend it. We are only going to be taxed on it", they cry. This commonly held view dictates against the merits of saving money.

With the proposed motion there would be little distortion between present and future consumption. While there is some controversy about the magnitude of the change on savings resulting from income tax on interest, the general view is that it is a negative effect.

Some of us ask what are the consequences of reducing savings. It is generally felt that a reduction in savings will normally lead to a reduction in capital accumulation and in the long run to a reduction in output per capita.

In light of shrinking government budgets and the upcoming review of our role in the provision of pension income, we have and continue to encourage Canadians to invest in their retirement. There are deductions for RRSP contributions, but why is there no provision for savings account or Canada savings bond interest?

I realize that RRSP interest is taxed upon withdrawal, albeit generally at a reduced rate. There are real limitations in the deferral of taxation and these implications translate into economic choices.

Another argument in support of the motion is that it will help Canada's senior citizens. After the $1,000 tax exemption was eliminated in 1988 there were some very convincing statements in favour of keeping the exemption, especially as it related to senior citizens.

In the 1980s over 80 per cent of our taxpayers over the age of 65 claimed this exemption. It was said that the elimination would have a disproportionate effect on senior citizens. Almost half the current generation of Canadian seniors, about 50 per cent, live at or below the poverty line. A small percentage, 5 per cent only, across Canada enjoy incomes of $40,000 or more. The remaining 45 per cent had hoped during pre-retirement years to invest in something that would act as a supplement to their pension cheques. This 45 per cent of Canadian senior citizens over the age of 65 would benefit by the restoration of the $1,000 investment income deduction.

A third argument is that the exemption would compensate for falling interest rates. Although economic activity may in general be stimulated by falling interest rates, those whose incomes depend on interest bearing assets are being hurt by falling rates. Seniors have been hit hard in recent years by such falling interest rates.

While there are benefits for seniors and an encouragement of savings I also have some serious concerns about the motion. The proposal to exempt the interest on savings accounts runs counter to current trends toward increasing tax revenue. If all bank interest were tax exempt, the lost tax revenues would certainly be significant.

In the mid-1980s the $1,000 exemption cost the federal government about $900 million in loss tax revenue. In 1992 tax filers declared over $18 billion in bank interest. This figure would be much higher if the exclusion were only for interest earned at financial institutions, as investors would adjust their portfolios to take advantage of the tax break.

Recently Revenue Canada instituted reporting changes for financial institutions. Beginning with the 1995 tax year, these institutions will be required to issue T5s for interest income at $50, down from the current $100 limit.

This new measure is meant to limit tax evasion. Some taxpayers with interest below $100 have simply ignored that income for tax purposes, forgetting or ignoring that every interest dollar earned is to be included as income. However the new change seems to indicate the government considers bank interest an important source of tax revenue.

Revenue is obviously an important component of our deficit reduction policy and reducing revenue runs counter to this necessary policy.

Another concern I have with the motion is the difference in treatment of earned income and non-earned income. Those who work for minimum wage are taxed on the first dollar they earn. Those who earn income from interest revenue are treated equitably under the existing system. I understand that invested money was once income and was likely taxed at the time it was earned, but the interest too is income. Allowing exemptions for interest income will disproportionately benefit seniors. How can we balance this against earned income so that it is socially equitable?

I will also address a comment by my colleague from Rimouski. The bill indicates interest earned on savings accounts. This would include all savings accounts and it would be an accumulative effect. It would be the total of the interest that would be considered an income. We could not spread our savings over