

*The Economy*

**Mr. Lalonde:** We as Parliamentarians, must recognize, that while this proposal would have improved the fairness of our tax system, now is not the time to introduce it. I expect that this adjustment will reduce the administrative burden on employers.

I am also responding positively to the numerous representations the Government has received on the taxation of housing and travel benefits extended to employees in northern Canada and other isolated locations. Such benefits are now tax exempt but the exemption expires at the end of this year. To continue to exempt all benefits would be unfair to other northern residents who do not receive such benefits, and to Canadians living in other parts of the country, who have to bear their full housing and travel costs out of after-tax income. An unlimited exemption would also encourage those affected to substitute tax-free benefits for taxable wages beyond what is reasonable.

However, there is a need for special rules for the valuation of housing and travel benefits that take into account the special circumstances of employees in these locations. Furthermore, I have concluded that, because of the very severe impact of the recession on communities in northern Canada, it would be inappropriate to begin subjecting such benefits to tax at the present time. I also recognize that northern employees and employers are being asked to adhere to the six and five program, and I do not want to impair their ability to do so.

Accordingly, I am extending today the current exemption of benefits by one year, to the end of 1983. I am also proposing a modified tax regime for benefits that will be phased in gradually, beginning in taxation year 1984 and ending in 1987. Full details will be provided in a document I will release shortly.

I would now like to say a few words on taxation affecting business, Mr. Speaker. Canadian businesses are presently confronted with very serious financial problems. Profits are at very low levels and must be restored if investment and economic activity are to pick up again. The decline in interest rates that has occurred since the June budget and the measures that I am announcing today will provide much needed relief. But I have come to the view that reducing the complexity of business tax measures and removing the uncertainties still lingering would help businessmen concentrate more fully on managing their affairs in these difficult times. I am therefore announcing today several tax adjustments to ease the businessman's burden.

● (1620)

[*English*]

The Small Business Bond was introduced last year to assist eligible small businesses in financial difficulty. The program, which was due to expire on December 31, 1982, has proven to be effective and has been used extensively. I am pleased to announce today that the program has been extended for one more year to December 31, 1983.

The change in tax treatment of professionals' work-in-progress will not apply to professionals who are ineligible for the low small business tax rate, or to other professionals who would be ineligible if they were incorporated. This includes

doctors, dentists, lawyers, accountants, veterinarians and chiropractors.

The Government has proposed that the federal sales tax be moved from the manufacturers to the wholesale level as of January 1, 1983. This change would greatly improve the tax structure and remove serious biases that work to the disadvantage of domestic manufacturers and in favour of imports. I have received representations from both small and large businesses on this issue. They have generally recognized the need to remove the biases in the current system but they have taken the view that now is not the time for a changeover.

Some groups, notably a joint task force of business associations that I recently met with, have requested the opportunity to explore further whether a modified proposal could meet these objectives. Accordingly, I have instructed my officials to work with industry to explore possibilities in this regard. I invite the interested associations to designate their representatives as soon as possible.

As I noted previously, in the current economic environment I am receptive to the notion that any change, no matter how beneficial, imposes costs and uncertainty on businesses. I want to minimize such costs while continuing the policy of making the structural changes in the tax system that are required. Consequently, I am also announcing that the date for implementing the proposal on the sales tax will be delayed until after the legislation has received Royal Assent and that, in any event, implementation of the new system will not commence before the middle of 1984. This will give adequate time for the Government and the private sector to consult further, for Parliament to review the legislation and for taxpayers to gear up for the new system.

The November, 1981 budget imposed a tax on dividend distributions by small business to correct a serious anomaly in the taxation of such firms and their shareholders. In my judgment, the objective of the tax is sound and many have agreed with its purpose. However, the original proposal was unduly complex. It was also criticized as applying retroactively to dividends paid out of income that small firms had earned before the measure was introduced.

In order to resolve these concerns, I have concluded that the tax should apply only to dividends paid out of corporate income earned in taxation years starting after the year 1982. Dividends paid out of business income will be considered to come first out of income earned after 1982. This change removes one of the features of the tax that small business and the tax community found objectionable, and together with other technical adjustments will simplify the tax quite significantly.

Before the November 1981 budget, tax on capital gains was deferred in various corporate reorganizations. That budget proposed to end these tax deferrals in certain circumstances. The application of the proposal has been deferred until 1983, pending consultation with a group of independent tax experts. The issue remains under study and it is my intention to publish a consultative document containing specific proposals.