HELP FOR CAPITAL

On the credit side, the Minister of Finance is to be congratulated for finally admitting that our tax system confiscates capital in periods of inflation. While one can understand his reluctance to index all capital property for income tax purposes at this time, particularly in light of the fact that he is cutting the indexation factor for income, one wonders if the limited concessions in the form of Indexed Term Deposits and Registered Stock Investment Plans may not single out for preferential treatment only a small segment of the capital pool and thereby create investment distortions and significant inequities as between types of investment and kinds of investors. On the other hand, if these measures are regarded as tentative first steps towards a more comprehensive system, they are to be welcomed and applauded. While substantial refinements may be made by the blue ribbon committee which is to report by September 30, 1982, it is to be hoped that the thrust will be in the direction of a more comprehensive system which will be less selective. Inasmuch as the United Kingdom has introduced full indexing for virtually all capital property, there does not seem to be any major impediment here in Canada if the problem of interest deductibility on leveraged investments can be solved. In any event, the proposals must be regarded as helpful and a step in the right direction. It may be incongruous to praise new initiatives that should have been adopted long ago, but something is better than nothing and one can only hope that, having admitted the problems, our masters will be more amenable to corrections that prevent distortions and enhance the concept of ability to pay – in real terms.

CONSULTATION

The Minister is also to be commended for taking a few more steps towards the improvement of the budgetary process by referring the "restricted interest" proposals to a committee of tax professionals and the corporate reorganization proposals to a group of outside consultants. He also announced that any changes with respect to low-interest or interest-free loans by Canadian corporations to their foreign subsidiaries would be deferred as part of a broader study of the taxation of foreign source income that is currently under way.

He also indicated that draft legislation relating to charities and to the tax treatment of life insurance policies was not yet ready because of the extensive discussions which had taken place with representatives of both groups. The revised proposals for charities were released in non-technical terms on April 21, 1982 and he tabled with the Budget documents a paper outlining the proposed new rules relating to the taxation of life insurance. It is presumed that the matters which Mr. MacEachen intended to submit to a parliamentary committee which he announced on December 18, 1981 (corporate reorganizations, life insurance, charitable foundations, professional work-in-progress and retirement allowances) will not go forward to any such committee. While the first three have been or are being dealt with by special committees or industry groups, it would appear that the work-in-progress issue is now closed and that the question of retiring allowances, while settled for the moment, may be reopened when the Government comes forth with its paper on retirement income.

All of these, coupled with the appointment of the committee to study the Paper on Inflation and the Taxation of Personal Investment Income, go a long way towards improving the budgetary process and implementing some of the ideas advanced in the Green Paper of April 1982 on the Budget Process. While the issue of budget secrecy still needs to be addressed, and a general Tax Advisory Group appointed, there is no doubt that significant advances have been made. They should, however, be institutionalized so that we do not slip back in future years.