

or \$15,000 of income annually, and that a lot of that got taxed, you would have the case where the moneys available would not be as great as those which they thought would be available for the benefit of the child who suffered that injury.

**The Chairman:** There might be another consequence.

**Senator Flynn:** I have no objection to it, but—

**The Chairman:** Another consequence might be that instead of getting a judgment for \$200,000, if you said in court to the jury that they would have to increase this amount because this amount was going to be subject to tax, there would be greater penalties on the people being sued. It seems logical to exempt the income until the child is 21. After that, the child presumably is getting the award of \$200,000 because he is just as unhealthy after the age of 21.

**Mr. Cohen:** That is true, senator. It is an arbitrary line, but I suppose that line has to be drawn somewhere.

**Senator Flynn:** I have no objection, but I do not see the reasoning behind it.

**The Chairman:** In the case of anything that is relieving, we have no objection. Is the clause carried?

**Hon. Senators:** Carried.

**The Chairman:** Clause 23 is carried.

Now, Mr. Minister, we have you here and we know that you are under some pressure. Supposing we could stop at clause 23 for the moment, honourable senators, as we have some general questions we want to ask the minister and this would be the time to do it.

I can think right away of a recommendation that the Senator committee made, Mr. Minister, in connection with the construction industry, wherein there was a practice under which the construction people, if they had a contract running into a number of years, would make a return on the completed contract at the time they completed the contract. There was nothing in the statute over those years that permitted that to be done, but that was the practice. In following that practice, the income tax division said the company would have to include the total amount of the completed contract and they would not entitle the company to withhold from that any withholding taxes, any withholding amount of money, that they might need for purposes of making sure that all bills would be paid. The income tax division said that they might withhold for a while but that they would have to return income for the full amount of the contract when the contract was completed. There was nothing in the law. We suggested in our report that some time, somewhere, a question may be raised as to the authority for this. Some administrative official in the income tax division, in administering the law, may disallow a return on this basis. I was wondering whether there was any particular reason why this was not dealt with.

**Hon. Mr. Turner:** I would like to ask Mr. Cohen to describe some of the problems.

**Mr. Cohen:** Senator, if I may, subsequent to the time of your report, we met with representatives of the construction industry and reviewed the contract method. There

was not general agreement amongst everyone as to how exactly to codify these rules. It was agreed, with their co-operation, that we would have the Department of National Revenue issue an interpretation bulletin, which would give everyone a chance to look at the way these rules are operating, particularly in the construction industry itself. If that bulletin were satisfactory, we would then consider codifying on the basis of the bulletin, when the facts were known and we had had a chance to operate them.

I might mention that that bulletin was issued only in the last three weeks, and we will meet again with the construction industry after they have had a chance to work under these rules.

**Senator Connolly:** When you talk about codification, you mean incorporating whatever rules you would derive from that ruling into the statute?

**Mr. Cohen:** That is right, the completed contract method developed as an administrative practice, but there was nothing officially from the Department of National Revenue on that. What the association really wants is to get that administrative practice brought into the statute. We are quite content to do that, once we are satisfied that everybody knows exactly what is meant by the completed contract method.

**Senator Lang:** This is a very general question to the minister. There seems to be a belief held by some people, even in moderate income groups, and by those who have now completed their 1972 tax forms, that the rate of tax has gone up invisibly under the new tax system, as opposed to the pre-1971 system, probably in the bracket structures. I was wondering if the minister could give us, in any general way, a comparison as to the dollar volume of revenue generated, as of this date, from personal income taxes, as of this date, compared with as of, say, a year ago from this date, under the old system?

**Hon. Mr. Turner:** Mr. Chairman, we have not a comparison of what the revenue is under this system and what it would be under the old system. As a matter of fact, we have not a complete assessment yet of the revenue, of course, on the 1972 fiscal year. In terms of the increased revenue, it is due largely to two factors.

First, there is the very strong expansion of the economy, particularly in the fourth quarter of 1972 and through the first quarter of 1973. The second reason is that inflation compounds itself against the progressive tax system, and it brought in much higher revenues than were anticipated at the time of the reform. I venture to say that if you were to put those same factors against the pre-reform system, you would not have too much difference in revenue. In order to make sure that does not happen, there was a gradual reduction on the first \$500 through until 1976, a reduction of 17 per cent down to 6 per cent in the next three years. It is just an added assurance that the new system does not provoke more revenue than the old system.

I think it is fair to say that if you add the February budget to this situation, the tax return from Canadian citizens has again been reduced by \$1,300 million which, applied across the board, would be equivalent to a 12 to 13 per cent tax cut.