

*Income Tax*

were members of the special sub-committee of the Standing Committee on Finance, Trade and Economic Affairs during the month of September, at which time we received submissions, heard testimony from witnesses, prepared a draft report on the tax provisions which were available after the June 28 budget and, of course, the previous November budget, and drafted recommendations in the form of a commentary. There were no recommendations made specifically by unanimous agreement of the members of the Committee, but we drafted a report which incorporated opinions in such a way that the reader could easily deduce the opinions of the Committee as to what should be done. Indeed, the Minister of Finance (Mr. Lalonde) when he brought down his October financial statement incorporated a great many of the suggestions that were implicit in the report of the Standing Committee. He made modifications to the provisions as a result to reflect those views as well as the views of hundreds and hundreds of other submissions made to the current Minister and, to the previous Minister concerning impact. He looked at how they could be modified to lessen any adverse impact and how they could be made more fair and more effective in achieving the objectives the Minister of Finance wanted.

• (1210)

We hear the cry that these tax provisions have to be studied in great detail. I agree they have to be studied carefully. We have to ensure that the provisions in Bill C-139 achieve the objectives which the Minister has stated he wishes. I suggest these provisions in one form or another have been under study and intense scrutiny by Members of this House of Commons for a very long time. As a result, we should be able to deal with this matter expeditiously and get it behind us so that we can turn our attention to more fundamental issues dealing with taxation, namely, the structure and fairness of it which simply cannot go without attention much longer.

In the next little while we will have to make decisions as to what the base will be of our tax system. Shall we follow the current practice, which is to use the base of income as the basis for our tax system, or will we move toward a more consumption-oriented tax base? Both methods can be handled in much the same way from a practical perspective as the current income tax system is.

We have also to take a close look at another very important aspect. How shall we apply this tax structure that we will create with regard to the timing of income? One of the big debates as a result of one of the provisions in Bill C-139 is whether or not accrued income should be taxed even though that income has not actually passed into the hands of the recipient.

**Mr. Nickerson:** Absolutely not.

**Mr. Evans:** I hear the Hon. Member opposite say absolutely not. That issue was carefully scrutinized by Members of the Finance Committee in September. We came up with very serious reservations about this notion of taxing accrued income

as opposed to taxing income when it finally comes into the hands of the recipient for tax purposes.

The whole question of timing should not be dealt with in an ad hoc way; it should be dealt with in a consistent way. If we are going to tax income on a pure income basis, then logic would dictate that you would do it on the basis of when income is earned, not when income is realized. Our Committee, however, indicated that we probably should not be going in that direction of taxing income when earned. Rather, we should be moving toward a system of taxing income when it is realized; that is, when the person has the money in hand.

That moves us away from what is called an income-based tax system toward what is called a consumption-based tax system. People pay tax on the basis of what they are taking out of the system; in other words, a reflection of how much they are consuming in the system and not how much they are earning in the system. Also, that kind of a consumption-based income tax system leads to a much heavier emphasis on saving and investment which, of course, are the precursors of economic growth and increased standards of living.

Those kinds of questions have not been debated to any great extent in this House, and I suggest they have to be. Not only do we have to determine on which basis we are going to tax, but we must determine the timing aspect of that income.

We have to look as well at a very serious question that has evolved over the last 50 years, the question of the progressivity of the tax system. Progressivity of the tax systems means that as your income goes up you not only pay more tax but you pay more tax at a higher percentage rate. Your marginal tax rate goes up over time, which is the difference between the proportional tax system where everyone pays a flat tax of, say, 20 per cent. A flat tax means the more you make the more you pay, but the percentage you pay does not go up. This is contrary to the system we have where the percentage you pay also goes up over time. The basic argument is that this will somehow lead to redistribution of income. It means you tax the wealthier at a much higher rate and those in lower income categories pay a lower rate.

If we look at the total tax system we have in this country, from excise taxes to sales to property taxes to income taxes to capital gains taxes, as well as the special payroll taxes of UIC, Workmen's Compensation, Canada Pension Plan—which are, in any real sense, taxes—we find prior to the introduction of the income tax that essentially we had a flat tax in this country. We had a number of excise taxes, special tariffs and special duties, a flat tax system. Everyone basically paid the same percentage of income in taxation. Income tax was introduced, but over the years the progressivity of that tax became greater and the illusion was that that would redistribute income.

The problem is that a progressive tax system also has negative incentive effects. As the progressivity increases the number of exclusions, deductions, exemptions and special treatment also increase. But if we look at the tax system today, lo and behold, what do we find? With all the complexity and