

Income Tax

by the fact that the possible gains they felt justified investment are no longer attractive because of the capital gains tax, and so they have decided to shift their investment activities outside Canada. This has been demonstrated to some degree by the fact that for the first time in two decades the net outflow of funds from Canada is greater than the inflow. Could the minister indicate to what extent his department has reviewed the situation in relation to the capital gains tax to determine if it has been a deterrent to investment in Canada?

Mr. Macdonald (Rosedale): As the hon. member knows, and as is indicated by the budget, we have been giving particular attention to the question of venture capital in Canada, and ways in which taxation of the financial system might be adjusted to provide a more propitious environment for venture capital in Canada, that is, the capital gains tax as well as regular taxation of income have been a matter of study. We do not have a study of the capital gains tax in general under way. Of course it relates to many other kinds of property as well as to investment in equity stock.

Mr. Stevens: Mr. Chairman, following on the minister's comments about the capital gains tax, and leaving them to consider how to encourage venture capital into the country, could the minister indicate to what extent he has had discussions with his counterpart in Ontario, who in one budget proposed a new venture capital corporation concept? The venture capital corporation contemplated by Ontario was entirely dependent upon special legislation being passed to allow for the proper income tax position if such venture capital corporation were formed pursuant to Ontario law.

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Mr. Macdonald (Rosedale): There has been extensive discussion at the official level, and I have personally had discussions with Mr. McKeough on this question. Indeed we pursued that question as well with officials in Alberta and Quebec, to see if we could arrive at some agreement for some better means of favouring venture capital in Canada. Venture capital is a comprehensive phrase, and is understood to mean different things by different people. For example, the chairman of the Toronto Stock Exchange would have one viewpoint, and the owner of a small business would have another. Obviously we must give particular attention to some areas, one of those being the case of smaller companies taking on a new venture or, indeed, larger companies which might be prepared to finance a venture under the appropriate economic circumstances.

Mr. Stevens: Mr. Chairman, may I ask the minister a general question? Since the capital gains tax has generated a disappointing amount of revenue, has the minister's department considered amending the capital gains tax provision so that it will have less impact in future on the gains of those who wish to invest in our country? Perhaps the act can be amended, even with a view to eliminating that tax entirely.

Mr. Macdonald (Rosedale): Mr. Chairman, we have under consideration at this point an extensive examination of differ-

[Mr. Stevens.]

ent viewpoints with regard to investment, particularly equity investment. I should not like to say at this point in which direction we are going, but it is a matter receiving active attention.

Mr. Stevens: Mr. Chairman, may I ask the minister another question? Could the minister give us the benefit of his knowledge concerning the workings of the capital gains tax in other countries? To what extent is our capital gains tax either more severe or less severe than the tax imposed in the United Kingdom, Germany, the United States or Japan? Can the minister be of any help in this respect?

Mr. Macdonald (Rosedale): Mr. Chairman, as a generalization—it can be nothing more than that—our tax is roughly comparable to that of the United States and not so severe as that of the United Kingdom.

Mr. Stevens: Mr. Chairman, may I deal with the provisions of clause 14 which have to do with the principal residence of a taxpayer and the fact that such residence does not attract capital gains tax, whereas other investments do attract the tax? Will the minister indicate if he has given consideration to exempting from income tax income arising from the investment of the proceeds coming from the sale of one's principal residence?

Many elderly people say—and I am sure the minister has received correspondence in this connection—that while they like the idea of their principal residence being excluded from capital gains tax, they face a dilemma when they approach retirement inasmuch as if they sell the property and put the proceeds into some comparable investment, the income from the investment is taxed. Such people may wish to live in an apartment and live either wholly or in part on the revenue derived from the investment. Such people are in a dilemma, or in an awkward position. In order to obtain the advantage, if you like, of not paying capital gains tax, they must stay in their residence; on the other hand, if they sell the property and invest the proceeds, they must pay tax on the revenue of the investment, revenue which they may use in order to rent a property. I am thinking in terms of those who rent, as opposed to those who continue to own their properties.

Mr. Macdonald (Rosedale): Mr. Chairman, I do not think I would agree with that analysis. I do not think it is good financial thinking on the part of such people to maintain a property which is more expensive than they need, because such ownership of course involves the cost of maintenance, including municipal taxation, the cost of maintaining the house and heating it in winter. What they may think they are saving in income tax they may actually be losing in maintaining a larger property than they need.

In effect, the owner of a property which is his principal residence of which he disposes has the advantage of a tax break already, a tax break which the owners of other kinds of property do not have in our economy. In that sense it is fair that they should have such tax break, that is, of being able to sell without having to pay tax on the proceeds. But after that