

saying. All the techniques that the minister has listed are movements in the right direction. The only suggestion I would put to the minister is that we as one of the western nations must redirect our tax system so as to reward those who save and produce. But we must do so far more rapidly than has been the case to date, even in this improved budget as compared with previous budgets. In effect, I am asking the minister to keep this option open. Even if the principle of equity disappears in the process, we must try to emphasize savings.

Most tax money which is returned to the consumer encourages more spending, which is the currently accepted way to revitalize the economy. But this is not necessarily the right approach over the long term when we have to increase the gross capital stock of the country. I will come later to the other proposal of more rapid velocity flow, but I should like the committee to understand that I support any proposal in the budget that provides incentive to save, even in small amounts. We must start right away to put emphasis on changing the habits of Canadians and get them to devote 10, 15 or 20 per cent of their incomes to savings. This we must do if we are to build up the capital pool that we need in this country.

Mr. McKenzie: Mr. Chairman, my question to the finance minister concerns interest income deductions. For 1974 a husband may claim up to \$1,000 tax-free income a year, but may not make any claim in regard to interest received by his spouse. I should like to ask the minister if he is contemplating any change this year, or will he consider making a change next year to allow the spouse's interest to be claimed?

● (1640)

Mr. Turner (Ottawa-Carleton): Mr. Chairman, the hon. gentleman is right in his assumption that the interest deduction is only available to the person receiving the interest against that person's income tax. If the wife and the husband both have interest income, each can use the separate interest exemption against his or her income, but they cannot transfer that exemption. I did make one exception to that rule in the budget, namely, with respect to couples 65 years of age and over where one partner to the marriage is receiving income, that partner can use not only the additional exemption for those 65 years of age and over which is applicable to himself or his wife but also the exemption available to the other partner if that partner is 65 years of age or over.

Mr. McKenzie: I also asked the minister whether he was planning to make any change this year in respect of this interest.

Mr. Turner (Ottawa-Carleton): No, I would not count on it, Mr. Chairman.

Mr. McKenzie: Mr. Chairman, I received a letter from a Vancouver real estate firm in respect of the interest income deduction. In this letter the writer points out:

—it has now come to the writer's attention from the Vancouver daily *Province* that if an individual owns an apartment building and has a mortgage or bank loan against the property and consequent interest charges thereon, then the interest charges must be set off against the \$1,000 interest earned allowance.

Income Tax

In view of the following this would not appear to be fair or reasonable.

1) The mortgage and bank loan has probably been set up for some time and was not done in order to take advantage of the budget proposals.

2) The purpose was to produce investment income the net of which is taxable.

3) Other points in the budget re depreciation were made in order to create a climate whereby investors would be inclined to produce rental accommodation. This would appear to be working against that possibility.

The writer therefore is of the opinion that mortgage or bank interest paid on this type of investment and interest paid in connection with operating a business should not be considered and should not have to be deducted from the \$1,000 allowance.

In addition, an individual may have retained Canada Savings Bonds and used them as collateral for the bank loan rather than cash them in. It is to be presumed that the federal government did not want bonds cashed in or they would not have made them so attractive.

I wonder if the minister is considering this type of complaint.

Mr. Turner (Ottawa-Carleton): Mr. Chairman, I think we dealt with matter that in the amendment the committee just passed, namely, that the interest is now considered for 1975 and subsequent years on a gross basis rather than a net interest basis. This meets the problem the hon. member has just described.

Mr. Munro (Esquimalt-Saanich): Mr. Chairman, I have a series of questions I should like to put to the minister for the purpose of clarification. The first is in respect of page 178 and the amendment to 110.1(1) (b) (ii), the taxpayer's grossed-up dividends for the year. I note that is defined on page 180, but I find myself at a bit of a loss to understand what exactly is the taxpayer's grossed-up dividends for the year. Is it the dividends increased by the one-third which the shareholder has to declare as earned dividends for the year?

Mr. Turner (Ottawa-Carleton): The answer is yes.

Mr. Munro (Esquimalt-Saanich): That being so, I wonder why the nomenclature has been changed, because normally when one receives a statement of dividends it refers to the taxable amount of dividends. Why is that term not used to simplify matters for simple souls like myself who have all the difficulty in the world in trying to work out their income tax, rather than using a new term, that is, "the taxpayer's grossed-up dividends"?

My second question is related to the extraordinary practice adopted, and to the comments of the hon. member for Qu'Appelle-Moose Mountain who indicated the need for savings. There is actually a penalty being imposed on those who have saved because of the necessity of having to gross up their income by declaring more income than they have actually received. I am wondering how this extraordinary practice ever crept into our law and, having done so, why it was retained. Has that been lost in history?

Mr. Turner (Ottawa-Carleton): I got the preamble but I did not get the question.

Mr. Munro (Esquimalt-Saanich): My question relates to this grossing up of dividends and the desire—in fact, the need in this society of ours—to save. A person who has