

### Income Tax

Is the situation any different in Canada? If I were to go to the Chateau Laurier, the Skyline Hotel, the Inn of the Provinces or any good restaurant in Ottawa, Toronto, Winnipeg or Montreal, I am sure the bulk of the people eating those expensive luncheons would be putting them on expense accounts, paid to a large extent by the taxpayers of this country. Meanwhile, if we pass this bill, the working man can only deduct the niggardly amount of \$250 for the whole year. That is probably less than some business people can deduct in one day for business expenses.

When he spoke last week, the hon. member for Waterloo-Cambridge mentioned an analysis of this bill made by law students at Osgoode Hall in Toronto. I should like to put on record some of their observations about this particular clause which will permit employees to deduct either \$250, or 3 per cent of their income. I commend these comments to the parliamentary secretary because they come from a group of people who in future will be in the business or self-employed category and will take advantage of the exemptions proposed in the bill. Referring to clause 4, the report reads:

1. This piecemeal deduction will do little to increase the disposable income of working Canadians. Assume a worker is in a 30 per cent tax bracket. If the government allows him an extra \$100 per year by way of the deduction, his tax savings are \$30 annually, or about \$1.60 a week, with which additional consumer spending is to be done.

2. The employee expense deduction is highly inequitable. It violates both the principles of horizontal and vertical equity.

(a) Two employees who both earn \$15,000 will get the same deduction even though each may be incurring for different expenses in earning that income.

(b) Vertical equity is violated since a person earning \$15,000 may incur far fewer expenses than a person earning \$4,000. Nonetheless, the former will be able to claim a far greater deduction than the other.

3. The employee expense deduction, present or proposed, discriminates against the working poor. A large percentage of Canadians earn under \$8,000. To award these people an arbitrary sum which they are to deduct to cover their expenses is highly insulting. They are not able to claim a full deduction of \$250, when perhaps incurring similar if not greater expenses than a higher salaried employee. This is so since all Canadians earning less than \$8,333 are restricted to claiming 3 per cent of their income as their expense deduction. Not only has the government failed to raise the 3 per cent minimum ceiling in order to help this income class, but it has failed to realize that this mode of calculation might only be justifiable if expenses incurred were a function of earning income. However, as has been stated, many people in higher income brackets spend less in earning income than the persons in lower income groups.

4. The employee expense deduction, with or without the proposed increase, does not provide a reasonable deduction for expenses incurred when earning income. Rather, it is the product of political compromise. The government has chosen a sum arbitrarily without the aid of statistical data. It merely retreated from the compromise suggested by the authors of the Carter report, i.e. to give employees a maximum deduction of \$500. However, such a figure was felt to be too generous.

5. Therefore, if required to justify the present figure of the deduction, the government should complete and publish a study of its costs and benefits which it promised to undertake long ago.

6. Ideally and practically speaking, all employees should be able to deduct the reasonable costs of earning income. Were the government so sensitive to the fact that "all Canadians face expenses of employment" (p. 19, budget supplementary papers) it would meet the problem of employee expenses head-on by eliminating the distinction between business and employment income.

That is precisely what I have suggested, Mr. Chairman. There should be no difference between expenses incurred by employees and expenses incurred by business people. It has

[Mr. Orlikow.]

been argued that this would make the administration and collection of taxes very difficult; in fact, the parliamentary secretary said it would be an administrative nightmare. I do not believe that the working people of Canada, those who are employees, are less entitled to expenses incurred in the course of their work than are business people and those who are self-employed. I shall support the motion of the Social Credit party, Mr. Chairman, and I should like the parliamentary secretary to tell the House why the government continues this approach to the calculation of expenses that affects working people differently from those who are self-employed or in business.

**Mr. Lumley:** Mr. Chairman, I cannot state specifically whether expense deductions are the same in Canada as in the United States. We think we have one of the best taxation systems in the world. Just to take one aspect of that, we have the highest threshold of income before taxes in the world. The hon. member's example was an individual making \$8,333, with two dependants, who does not pay any income tax whatsoever. I am not aware of how many countries have that particular tax provision. When you talk about businesses, those expenses are restricted to legitimate expenses.

● (1622)

**Some hon. Members:** Oh, oh!

**Mr. Lumley:** If there are some allowances that are not correct, then they should be brought to the Department of National Revenue. That is exactly what National Revenue does and is there for. As far as taxation goes, only legitimate expenses are to be allowed on tax forms.

Mr. Chairman, the bureaucratic nightmare which I referred to earlier is not just a question of the amount of paperwork involved; it is also a question of determining what are legitimate expenses, if you want to use his example with regard to individuals. For instance, the motion on the floor at the moment with respect to cars, does that mean the individual who drives a big, gas-consuming vehicle has a larger expense deduction than the individual who drives a smaller car and conserves energy? Does that mean the individual who buys expensive suits gets a larger expense deduction than the individual who wears Levis? If he talks about equity, Mr. Chairman, I do not see where this suggestion would solve the equitable situation that they advocate.

**Mr. Orlikow:** I would like to ask the parliamentary secretary a question. He says we have a very equitable tax system. Would the parliamentary secretary explain, and tell me if I am correct in my statement that a businessman, doctor, lawyer or architect can deduct a substantial percentage of the expense of running his car which he uses for business, including the cost of gas, oil, automobile insurance and depreciation on the car? If he confirms one can do that, will he explain to me why a working man living, for example, in Gimli, Manitoba, who has a job in Winnipeg, 50 miles away, and drives to and from work every day to keep his job cannot deduct a percentage of his car expenses the same way a businessman can? In the examples I have just recited, if they do not have the same rights, where is the equity?