

Income Tax Act

of exemptions tends to negate the idea of a progressive tax system.

There is another feature in our income tax system which, I submit, is very regressive and very negative, and that is the concept of indexing taxes. This began in 1974 as protection against inflation. Our taxes were adjusted each year to take into account the rise in the consumer price index so that we would not be pushed into a higher tax bracket and have to pay more taxes.

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This idea was first proposed by the Conservative party and later adopted by the Liberals. The idea of indexing seems logical, a way to protect the taxpayer from inflation. But again when you examine how it works, you find the result is that greater benefits go to upper income earners. Then one has to ask oneself: Where is the fairness in that kind of procedure if we believe in a progressive tax system?

For example, if you take the total tax savings from 1973 to 1977 of different income groups—and this includes income tax—this is the result of indexing: if your total income was \$10,000, because of indexing you get a cumulative tax saving over those years of \$671. If your income is \$25,000 a year, your tax saving jumps to \$1,663. If your income is \$50,000, your tax saving increases to \$2,573. In other words, the more you make, the more you save in taxes because of indexing. The cumulative annual cost of indexing by 1977 was some \$5 billion. That is \$5 billion less revenue for the federal treasury to carry on the programs that we as Canadians want and need.

I submit that indexing is justified to protect taxpayers against inflation, but to make it fair we should apply indexing to a system of tax credits, not to the current system which I have just described.

There are other tax shelters which again indicate that our tax system is very unfair. Let us take, for example, the investment income deduction. The first \$1,000 of investment income or interest income from a bank deposit is, of course, tax free under our system. If your income was \$10,000 a year, the value to that typical taxpayer, married with two children, is \$266 in tax saving; but if your income is \$25,000, that value jumps to \$379. If your income is \$50,000, you save \$510 because of that provision.

Consider, for example, the registered retirement savings plan. In 1974, the cost of this program to the federal treasury was \$513 million, and it has been in effect ever since. If your income is between \$10,000 and \$15,000 a year, your average saving is only \$9.81, and that group of taxpayers represents 18.7 per cent of all taxpayers in Canada. But if your income is \$15,000 to \$20,000 a year, under the RRSP provision you are able to save \$125 a year, but that income group represents only 6.8 per cent of the taxpayers. If your income is over \$20,000, you have an average saving of \$551.88, yet that income group represents only 4.6 per cent of all taxpayers. Therefore, we see that just under 5 per cent in the over \$20,000 a year bracket had just over 57 per cent of the tax savings in 1974 from the RRSP. Again, the income tax system

[Mr. Symes.]

favours the wealthy and allows them to avoid more and more in taxes.

The same thing could be said of the registered pension plans. Again we see the same kind of trend in the registered home-ownership savings plan. Consider child care deduction, of which so many taxpayers take advantage. If you have a two child family in the \$10,000 income range, you would save about \$210 in taxes, while a family in the \$50,000 and over range would save \$430 under the child care deduction scheme. We hear the Minister of Finance say, whenever he talks about this in budgets, that the child care deduction was supposed to help lower and middle income families who need help most. In reality, when we examine how the tax system works, we find that it helps the upper income level more. If you go through our tax system, you begin to see the unfairness developing.

What is fair about the situation that occurred in 1975 when, according to official statistics, we had 305 people earning over \$50,000 a year, and quite legitimately under our income tax system they did not have to pay one cent in income tax because of all these deductions? Something is very, very wrong and I think the average wage earner knows it when he looks at the way the tax system works.

Surely we need a progressive income tax system that is fair. Yet when we look at the evidence, we see that the personal tax system as it is presently structured is not fair. Indeed, I should like to put on the record a quotation from a study done by the Economic Council of Canada in 1972 which found the following:

While government expenditure programs may contribute to the redistribution of income, the tax system as a whole does nothing to contribute to this goal. Indeed, over the lower portion of the income scale the system tends to contradict the ability to pay principle by taxing the poor at a higher rate than those who are better off. The effect of the few taxes that are progressive is completely offset by the remainder of the taxes in the system.

That study is just as valid today in 1978. Indeed, the National Council of Welfare published a report in November of 1976 which estimated that the cost of just 17 of these 60 tax subsidies and tax breaks in our system was some \$6.4 billion. That is an incredible sum. We find that taxpayers earning over \$50,000 a year received an average \$4,000 in annual tax break benefits, but taxpayers earning less than \$10,000 received less than \$500 from the same tax break provisions. Yet the Minister of Finance is trying to argue that we have a progressive, fair and just tax system.

So if you look at the personal income tax side of the equation, you see that the burden of taxes is falling on the lower and middle income group and that the upper income group is taking advantage of all these exemptions, thereby undermining the whole concept of ability to pay and of taxation being progressive.

The second phenomenon that is happening with our tax system is on the corporate income tax side. Here we find that the tax burden is also being shifted, but it is being shifted away from the corporate sector of our society to the backs of individual taxpayers. I have done some studying and I find that tax incentives to big business—not to small business