

Income Tax

This is a massive Bill with some 134 Clauses, indicating, in almost every case, changes to the income tax laws of the country. It is several hundred pages long. We had what amounted to a few hours of debate on Clause by Clause consideration. It is very difficult to be pleased with the process or feel that there was an opportunity for Members to take part in formulating the tax policy of the country in such circumstances.

In addition to closure at two stages of debate on the Bill, we have watched the Government attempt to put outside pressure on Members of the House. Taxpayers who prepaid their taxes or overpaid their taxes were held as hostage. The Government threatened to withhold their refunds until such time as the House passed the Bill. I do not think there is any precedent for that, Mr. Speaker. There have been similar circumstances before but the rebates went out before the relevant Bill was passed. This year the Government says that will no longer be possible and that until the Bill receives Royal Assent, no rebates will be paid.

The Bill has brought about a number of basic changes to our tax system. I think the change that we most object to in principle is the one which we perceive to be a move away from the principle of progressive taxation. That is supposed to be the principle that this country follows although evidence of that is not always clear. It is the principle that is espoused on election platforms and in speeches on taxation policy.

We perceive progressive taxation to be the most fair and equitable because it follows the "ability to pay" principle. There is plenty of evidence to indicate that people who have higher incomes use more Government services and subsidies than people on lower incomes. There is another reason for a progressive style of taxation. Not only does it comply with the ability to pay increasing tax rates, but it also fits in with the calls on the public purse made by the various income levels.

I would remind those who may doubt that statement that it is generally people on higher incomes who use the subsidies that go to the airlines and the airports. People on low incomes do not travel by air so much and do not use the kind of subsidies that are available in that area.

We could probably cite many more instances but what I want to do today is to spend some time discussing the proposals for change that we would have made by way of amendment to the Bill had we had the opportunity.

● (1200)

The first change about which I want to talk concerns the provision in the Bill for a new system of forward averaging. We are proposing an amendment that offers the same sort of averaging, previously known as general averaging. It would react to a decline rather than an increase in income. In a sense it would be a mirror image of the old averaging formula. Our proposal is unlike the forward averaging proposal offered by the Government, in that it would be automatic and would require no designation of income above a certain threshold or payment of tax at a higher level in order to participate in the averaging process. Our forward averaging would be useful to retiring farmers or someone with a large sum of extraordinary income. We are adding automatic averaging to the existing

provision of the Bill, for example, for a taxpayer who might have suffered a drop in salary for 1982. The cost of the proposal to the general revenue of the country would probably be somewhat less than the \$2.6 billion which the Government expects to save by dropping general averaging over the next four years, assuming that the economy recovers or at least does not worsen in the meantime.

Our measure is progressive in the very best sense of the word because it reduces income tax for someone who was laid off or had a bad year. It is not as elitist as the existing forward averaging provision because it is automatic. Under our automatic averaging proposal, for example, with a fairly average income earner who earned incomes in the last five years of \$17,000 in 1978, \$19,000 in 1979, then \$22,000, up to \$25,000 in the following year, and suddenly a bad year of \$16,000, the tax without the averaging provision for 1982 would be \$2,610. With the averaging provision, his tax payable would work out to \$2,404 or a saving of \$206. We argue that that rebate of \$206 during a year when income has dropped would be most welcome and would assist in evening out uneven incomes.

I might point out that farmers still have a five-year averaging provision, but we think that in these hard economic times when people are earning good incomes one year, then are laid off or their incomes are drastically reduced, an averaging provision such as the one we propose would make sense and be equitable to Canadians. The tax system has been and is continuing to work less to the benefit of ordinary individuals in the country.

Returning to the equity position, in the 1950s federal and provincial income tax worked out at almost 50 per cent paid by individuals and 50 per cent by corporations. I will take a shortcut rather than presenting all the figures. When we reached 1980, federal income taxes combined in that year fell 76.6 per cent on individuals and 23.3 per cent on corporations. There has not been a diminution of control or influence by corporations in that period of time. Almost any study at which we look, even without spending much time on analysis, indicates that the corporate sector was gaining far more control over the economy during that 30-year period. The amount of taxes they are being asked to pay by way of provincial and federal income taxes is proportionately down from what it was in 1950. I just wanted to put those facts on the record.

I would like to spend a few moments discussing some of the amendments we propose affecting small businesses, and farmers in particular. As we all know, the Bill does away with the income averaging annuity contract, restricted reserves and also halves the capital cost allowance for the first year of purchase of new machines. It proposes to do nothing to alleviate the burden of capital gains tax on retiring farmers. Despite that being one of the few planks in the current Liberal Government's platform back in the 1980 election campaign, there has still been no attempt to address that particular promise. I remind Hon. Member opposite that the promise was to change valuation day to the end of 1974 from the end of 1971. This