

Income Tax

As far as marginal tax rates are concerned, there is no benefit to low and middle-income earners. With partial indexing there is a net loss. With capping of Family Allowances, again a net loss; capping of old age pensions, again a net loss; reduced services under the Canada Assistance Act, a net loss for those in greatest need. De facto wage restraint in the private sector is already down by 30 to 50 per cent for hundreds of thousands of Canadians because, as I said earlier, they are on unemployment insurance, welfare or not looking for work at this time.

Wage restraints in the public sector are being held to six and five, as they are for many in the private sector. Because of partial deindexing of personal income tax, as wages are held down, their income taxes for next year will go up.

I would like briefly at this time to put forward some of my Party's views on what we think would be an equitable tax system. I would be remiss at this stage if I did not include this in my remarks.

First, the tax system should be fairly based on the ability to pay. Ability to pay is the cornerstone of any progressive tax system. Second, all types of income should be treated equally for people earning the same level of income. Let us look at some recent tax developments, that is, before the 1981-82 budgets.

Since the 1960s the tax system has become more uneven, less comprehensive. Changes in the early 1970s brought new tax advantages to the corporate sector. Business taxes have assumed a declining proportion of federal revenue since the end of the Korean war. They peaked with the imposition of a tax on excess profits in 1950. At that time corporate taxes comprised 23 per cent of federal revenue, but by 1979 that amount had dropped to 10.3 per cent. The decline in the importance of corporate taxes corresponds directly to an increased reliance on personal income tax revenue. Since 1950 three-quarters of the growth in federal revenues have been as a result of increases in personal income tax. Thirty years ago personal income tax contributed 20 per cent of federal revenue. By 1979, the figure was 37 per cent. Individuals picked up an additional 20 per cent in sales and excise taxes. The last three decades, Mr. Speaker, have also seen the advent of a new series of levies, payroll taxes, special charges to cover the cost of unemployment insurance, Canada Pension Plan, and in some Provinces even Medicare premiums. These levies now account for 6 per cent of wages. The employers' contribution to those programs is generally considered forgone wages, although it is not apparent on the pay slip.

• (2050)

Taxes on wealth have assumed a declining role in the raising of revenues. In 1971 the federal estate tax was abolished, which led to the dismantling in most Provinces, with the exception of Quebec, of succession duties. In 1971 alone, the federal Treasury lost \$4.5 billion, which would have otherwise been collected from our wealthiest citizens through estate taxes and succession duties. These changes left Canada with the dubious honour of having the lowest rate of tax on wealth in the industrialized world. Our rate of tax on wealth in Canada is .07 per cent of the GNP. Even in the United States

it is .42 per cent of the GNP, and in Switzerland a much more realistic 1.02 per cent. Most taxes on wealth in Canada are levied in the form of property taxes, a relatively unprogressive levy, leaving only 2 per cent collected from death taxes.

The federal Government also gains revenue from commodity taxes. These are usually applied on goods whose demand does not fluctuate with price changes, such as tobacco, alcohol and gasoline. It seems that the Government anticipates raising greater proportions of its revenue in future through substantially increasing energy excise taxes. Probably the most significant developments in the tax structure during the last decade have occurred through the expansion of the tax expenditure system. Through tax expenditures the Government encourages certain activities by giving preferential treatment to certain types of income, thus giving up taxes it would have normally collected.

In the existing Income Tax Act there are over 100 provisions for preferential treatment of income, including deferrals, deductions, exemptions, credits, exclusions and special rates. In 1979 the total tax expenditures were worth \$30 billion. By 1980 they had risen to \$39 billion or 60 per cent of direct expenditures. These developments occurred in direct opposition to the recommendations of the Carter Commission. Between 1976 and 1980 direct expenditure by the federal Government increased 30.4 per cent, whereas the value of tax expenditure grew 42 per cent.

What should a tax system accomplish, Mr. Speaker? I would like to suggest, first of all, that it should raise sufficient revenue to cover Government expenditure, including the increased revenue needs of a more activist Government. Second, these revenues should be raised fairly, adhering to the principle of ability, that is those with the largest income should have the highest rate of tax. This principle should be applied to both corporate and personal income taxes. Third, there should be a primary reliance on income taxes, both corporate and personal, to raise Government revenue. Income taxes can be the most progressive, hence the Government should reduce its reliance on commodity taxes and move toward the elimination of payroll taxes, funding these frugal programs through general revenue. Fourth, the tax system should be comprehensive. The existing structure of tax expenditures should be reduced and the existing goals of the system should be accomplished to a greater extent by direct spending. The tax expenditures that remain should, to a greater extent, take the form of refundable tax credit or direct grants. Fifth, the system should act to redistribute wealth. I think this is very important in any forward-looking, socially-conscious Government, that the tax system is really the major vehicle for redistributing wealth in the nation.

Over the last 30 years the combination of increased social security spending, and a supposedly progressive income tax, have done nothing to alter the balance of wealth in Canada. The top 20 per cent still control over 40 per cent of the national income, and the bottom 20 per cent have access to only 4 per