

*Income Tax Act*

the estate tax field and in its place we are bringing in the capital gains tax.

**An hon. Member:** Hear, hear!

**Mr. Horner:** Can the parliamentary secretary give the committee an estimate of how much money the government hopes to net from the capital gains tax, if revenue from that tax is not to equal approximately 25 per cent of revenue from estate taxes? How much will the capital gains tax bring in? We want to know because here we are bringing in mass changes that will affect the whole industry. Could the parliamentary secretary give us some idea in that regard?

**Mr. Mahoney:** Mr. Chairman, if I may use a semi-agricultural term, I think the hon. member is putting the cart before the horse in terms of the relationship between the withdrawal from estate and gift taxes on the one hand and the introduction of capital gains tax on the other. It was thought that since the government had made the policy decision to introduce capital gains to the income tax base some relief with regard to estate taxes obviously had to be given. The decision was made, of course, ultimately to discontinue collection of estate and gift taxes, the double-whammy of the white paper debate, if I may use a popular expression. That taxation would have impact at the time of the death of a taxpayer.

As to the specific question regarding the expected revenue from the collection of capital gains taxes, on the basis of 1972 incomes it is anticipated that in the first year of the system \$50 million will be collected from corporations and \$80 million from individuals.

**Mr. Horner:** Mr. Chairman, I do not want to prolong this discussion. I am wondering if we could agree on another concept since we seem to be getting along very well. Is it logical to assume that the capital gains tax which is to apply to the basic herd and to other items will bring in increasing revenues as the years go along? The parliamentary secretary mentioned that \$50 million would be collected in the first year from corporations and \$80 million from individuals.

I do not want to be out of the ball park completely. Is it logical to assume that the revenue the federal government expects from the capital gains tax will increase as the years go on? Judging from the past performance of our economy, is it fair to assume that revenues from the capital gains tax will increase?

**Mr. Mahoney:** Mr. Chairman, since the provisions of the bill do not permit the capital gains tax to be applied retroactively to gains accrued or realized before valuation day, the tax in the first year would apply only to gains from valuation day to the date of realization. So it will probably take five years for the system to mature and for the ordinary number of transactions involving capital assets and capital gains revenues to level out. These revenues should increase for the first five years and then reach some sort of norm.

**Mr. Horner:** Mr. Chairman, I appreciate the frankness with which the parliamentary secretary is helping the committee to understand this legislation. May I ask another question? Why should these revenues level off after five

years, since the capital gains provisions in effect after valuation day would apply to land, cattle, various assets and residences which increase by more than \$1,000 per year? They will apply to all increases in capital values. Surely these values will tend to increase by so much every year after valuation day. I do not understand why we should reach the norm in five years. Why would such revenues not continue to grow? You might reach a plateau in terms of the number of transactions or turnovers; however, in essence, would not revenues continue to grow every year?

**Mr. Mahoney:** Mr. Chairman, the five-year period is based on the experience in the United States, which we may relate to these provisions. That period is a guesstimate, if I may say so. We expect, from their experience and from studies that the Department of National Revenue has carried out here, that by the end of five years the ordinary number of capital transactions will probably level out and that we shall obtain some sort of normal level of revenue from that source.

**Mr. Gleave:** I rise on a point of order, Mr. Chairman. I do not wish to curtail this discussion, but I recall that when we started discussion of this section today the hon. member for Battle River, I believe, requested that the sections dealing with capital gains and inheritance be brought before the committee at the same time as the sections we are discussing, because all these sections are very closely associated and deal with the question of herds and procedures of taxation that will be followed with respect to farms. If I remember correctly, the parliamentary secretary pointed out that the leaders of the parties had not agreed to this and therefore he was not prepared to enter into a discussion on the matter.

As I say, I do not want to curtail the discussion we are embarked upon because I think it is most relevant. However, the parliamentary secretary must adopt one course or the other. I only bring this to your attention, Mr. Chairman, since you might bring it to the attention of the House leaders who could determine how this matter could be handled.

**Mr. Horner:** Mr. Chairman, I knew that I might be treading on dangerous ground when I opened this discussion. Since I am one who likes to stick to House rules, I led nervously and gently to the question of how this tax would apply to the basic herd. I wanted to know whether the question I had raised was or was not related to the concept of capital gains. The parliamentary secretary said yes, it was related. Now I want to proceed one step further. I think the parliamentary secretary was comparing the capital gains tax provisions tax in Canada with those of the United States.

• (9:50 p.m.)

You have to lead into these things before you can get to where you want to go. I will now get to my next question. Does the parliamentary secretary agree to our imposing a capital gains tax on cattle similar to that in the United States?

**The Deputy Chairman:** Order.

**Mr. Horner:** I am just asking for the reasoning and logic.