can be achieved, generally, by following two methods: either by administering chimiotherapy, either through the use of tranquilizers or by talking with the patient. Most people working in this field seem to prefer the latter method, which involves personal, intense, warm communication between the patient and the social worker. Usually, hospital personnel do not have time to engage in this kind of therapy in a large hospital.

A significant part of the staff in treatment centres works on a voluntary basis so that salaries are not a major cost component. This permits the hiring of large staffs which help ensure that any person applying to these centres receives immediate help. Usually, people working in these centres can deal with most bad experiences with drugs by talking with the patient, which does not seem to require very sophisticated professional training. This way, the professional staff can concentate on more difficult cases and have more time to study specific cases that should be referred to other institutions. These centres therefore offer a most useful service and their operating costs are small. The staff of most of these centres seem to take their responsibilities very seriously and it is extremely useful to the community.

However, before taking decisions, we must study what is already available in order to establish the best possible programs. Among the services which can be considered are the following: the Youth Centre in Montreal, the Insight-Drug Aid in Fredericton, the Toronto Free Youth Clinic, Digger House in Halifax, Cool Aid in Vancouver. Those are but a few examples. Many others should be studied, and we have the impression that our young people should play an important role in their development, which they will undoubtedly do.

The Acting Speaker (Mr. Honey): Order, please. The hour appointed for the consideration of private members' business has now expired.

[*English*]

Pursuant to the order made on Friday, May 28, 1971, this sitting is suspended until 5.10 p.m. when the bells will be rung.

At 5 p.m. the sitting was suspended.

• (5:10 p.m.)

SITTING RESUMED

The House resumed at 5.16 p.m.

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. E. J. Benson (Minister of Finance) moved:

That this House approve in general the budgetary policy of the government.

He said: This is an important and historic occasion. It is the birthday of the hon. member for Winnipeg North Centre (Mr. Knowles).

Some hon. Members: Hear, hear!

Mr. Benson: And it is the birthday of the hon. member for Vancouver East (Mr. Winch).

Some hon. Members: Hear, hear!

Mr. Benson: In order to celebrate this occasion, I should like to invite them to wear a rose as I am doing. It is also an historic occasion in that nine years ago today many of us were elected to Parliament. It is also the anniversary of the battle of Waterloo—

Some hon. Members: Hear, hear!

Mr. Benson: —and the declaration of war by the United States on Britain in 1812. It is an historic occasion as well, Mr. Speaker, because after almost a decade of study and public debate, we are now entering the final phase of the most comprehensive tax reform undertaken since the income tax system was begun in 1917. The legislation Parliament will be asked to approve this year will provide the framework for our income tax system for many years to come.

• (5:20 p.m.)

My budget presentation this evening will be somewhat longer than usual. This is because it is my intention not only to provide a broad outline of the tax reform we propose for Canada, but to discuss the economic situation and the fiscal policies appropriate in present circumstances.

The first step down the long road of tax reform was taken in 1962 by the former Conservative government. In response to a growing public demand for major revision of the tax system, the government of the day appointed the Royal Commission on Taxation, under the chairmanship of the late Kenneth Carter. In the spring of 1967, the commissioners published their report recommending sweeping changes in the system.

Shortly afterwards my predecessor as Minister of Finance, the member for Eglinton, invited submissions from the public on the commission's report. Following a widespread public discussion the government tabled the White Paper on tax reform in November, 1969.

The government has considered the hundreds of submissions from organized groups in our society and the thousands of thoughtful letters from individual taxpayers.

The work of the two parliamentary committees was extremely important to the White Paper process. The members of the Commons Committee of Finance Trade and Economic Affairs were able to assess not only the submissions from organized groups but as elected Members of Parliament were able to assess public opinion among their constituents. Both committees held lengthy hearings in Ottawa. The Commons committee also conducted hearings in provincial capitals.

The provinces, too, have put a great deal of time and effort into studying the federal proposals. For the first time they were invited to comment upon and criticize proposals for changing the tax system and alternatives were put forward. After the White Paper was published, I met with provincial ministers many times on the subject of tax reform. It was also discussed at meetings of first ministers. Many of the provincial representations are reflected in the bill.

The White Paper process was an important step in the evolution of participatory democracy in Canada. Until now, it has been traditional for governments to implement tax policy by introducing legislation directly into this House. In this instance the government chose to adopt a different approach. This was done because the government believed that a fundamental reform of the existing tax system was necessary and that all Canadians should participate in the development of this reform. The government chose to express in a White Paper its view of what a tax system ought to be, and invited all Canadians and all levels of government to join in the discussion. As I have said many times, the White Paper reflected the government's view, but the government was not wedded to its proposals; rather, it was willing and ready to respond to suggestions for improvement, provided that the basic objectives of tax reform were maintained.

At the beginning of the debate, the government was able to participate openly in the dialogue. As the time for decision drew nearer, the traditions of budget secrecy forced us to limit more and more the public expressions of our views. However, throughout the entire process, we listened carefully to the constructive advice received from citizens, organizations and other levels of government.

The White Paper process was, Mr. Speaker, of great value. In the end, the federal government must assume its responsibility to recommend to Parliament the legislation which, in its judgment, will best serve the interest of Canadians. However, through the process of debate and discussion, it has been possible to develop a program of tax reform which not only meets the needs of Canada but also reflects the views of Canadians.

The Goals of Reform

Mr. Speaker, the legislation I am introducing this evening represents a basic reform of our income tax system. To properly evaluate these proposals it is important that we have a clear view of what a good tax system ought to be.

A tax system must be sensitive to the economic and social needs of this country. It must not stand in the way of steady and continuous growth and economic prosperity. In some cases, it must do more—it must stimulate sectors of our economy which need incentive.

A tax system must distribute the tax burden in an equitable manner, based upon ability to pay. Furthermore, it must not only be fair; it must be seen to be fair. As stated in the White Paper, fairness in taxation implies two principles. First, it means that people in similar circumstances should accept similar shares of the tax load. Secondly, it means that people with higher incomes should be expected to pay in taxes a larger share of their incomes than persons with lower incomes.

To be acceptable to all citizens, a tax system must have as few loopholes as possible. Voluntary compliance cannot be maintained if it is apparent that special groups of taxpayers are able to avoid paying their fair share of the burden.

A good tax system must lend itself to efficient, economical and objective administration. It must be straight-forward in both purpose and method, so that taxpayers know where they stand with a minimum of administrative discretion and litigation.

Finally, in the Canadian context, it is essential that the federal tax system be capable of being harmonized with provincial tax systems. This is necessary if we are to avoid a tax jungle.

I believe that the proposals which I will introduce this evening represent a reform of our tax system which will deal with many of its shortcomings. They will also reflect a consensus about what Canada's tax system ought to be in the 1970s.

Because this is a comprehensive reform, time will not permit me to discuss in detail the many individual changes proposed. So that members of this House will be able to obtain a clear understanding of what is proposed, the notice of ways and means motion which I will table tonight contains the full content of the tax reform bill. In addition, supporting documents provide a brief but comprehensive explanation and description of the various proposals.

It is my intention this evening to discuss the main features of the reform package, to explain its general direction and purpose and to review the revenue and economic implications.

The Thrust of the Changes

Mr. Speaker, I now want to describe the general thrust of our reform proposals and the manner in which they respond to the goals of a tax system and the needs of Canada.

First and foremost, by a combination of increased exemptions, changes in the rate schedule and other measures, we propose to reduce significantly the tax burden borne by lower-income Canadians. In recent years the combined effect of the income taxes, sales taxes and property taxes, of all levels of government, has put too heavy a load on those with the least ability to pay.

We propose a major reform of the definition of income so that our tax system will be more fair and equitable between taxpayers. As the most important element in this regard, we propose to tax capital gains. In addition, we propose to bring into the definition of income several other items which have not been taxed in the past. At the same time, we propose to recognize certain expenses as new deductions from income. The result of these measures will be to produce a better and fairer balance in determining the income that is brought to tax.

As part of this process, we will reform the tax treatment of wage earners—the vast majority of our taxpaying population. We propose a number of measures which will more accurately reflect the changing composition of our labour force and the many expenses that this group faces in earning a living.

We propose a major reform of the tax treatment of corporations and their shareholders. This will eliminate much of the double tax burden at present imposed upon persons who invest through corporations.

In addition, the corporate tax system will give due recognition to the problems and contributions of small business—a subject to which many Canadians attach a high importance.

We propose several valuable reforms of the administrative procedures. Our objective in this regard is to recognize in law the rights of taxpayers.

We propose a significant reform of the present treatment of our natural resources industries. We are fully aware of the importance of this sector of the economy. At the same time, incentives in this area will be more directly responsive to the needs of this industry and to Canada's over-all policies in this area.

• (5:30 p.m.)

We propose important reforms for Canadians who carry on business aboard and non-residents who invest in Canada.

Finally, we have developed a program which will ensure that the increases in revenue derived from the more equitable distribution of the tax burden will be returned to all taxpayers. This program fulfills the government's commitment that tax reform will not be a stepping stone to tax increases.

Mr. Speaker, before I turn to a more detailed consideration of these reform proposals, a brief word on the timetable.

The tax bill will be introduced for first reading at the end of the budget debate. It is the government's intention that debate on second reading of the bill begin when the House reconvenes early in September. This will provide time for public study and for the government to consider representations for technical changes. Meanwhile, we will discuss the legislation with provincial governments. I have asked for a meeting of finance ministers and treasurers in July. It is intended that the new system will come into effect on January 1, 1972.

Personal Income

The reforms with the greatest impact on most Canadians are, of course, those involving personal income. Low-income groups bear a disproportionate share of the tax load. Not only have the basic exemptions remained unchanged for more than 20 years, but provincial and federal sales taxes, which bear heavily on low-income groups, have increased substantially.

The legislation proposes to raise personal exemptions to $1,500 from $1,000 for single taxpayers and to $2,850 from $2,000 for married taxpayers. This substantial increase in exemptions, which goes beyond our original proposals, is the broadest and most fundamental move to provide tax relief for individuals.

Hundreds of thousands of elderly Canadians will reveive further substantial tax relief through a combination of measures. The existing $500 extra exemption for persons 70 years and over will be increased to $650 and extended to all persons 65 years and over. The guaranteed income supplement, which goes to pensioners with little or no income other than their old age security pension, will no longer be taxable. Including the standard deduction, single taxpayers 65 years of age and over will be exempt on $2,250 of income.

Blind persons and disabled persons confined to a bed or wheelchair will be given the same benefit.

Six out of seven Canadian taxpayers are the men and women of our labour force who earn wages and salaries.

A new employment expense allowance will permit wage and salary earners to deduct three per cent of employment income up to a maximum of $150 a year. This measure will alleviate the cost of buying special clothes, or tools, or books required for a job, and put these workers on a more equitable footing with the self-employed.

There will be a deduction of up to $500 per child and up to $2,000 per family for child care expenses. This will go a long way toward removing a deterrent that many women say prevents them from taking jobs. In some cases the deduction may be claimed by the father. Our estimates are that several hundred thousand families will benefit. In many cases genuine hardship will be relieved.

There will be broad deductions for the expenses involved in moving to a new job. These include the costs of transporting families and belongings, their meals and lodgings while moving, and the cost of cancelling leases or selling their residences. The changing nature of our labour force and our economy requires that Canadians have greater mobility if they are to accept job opportunities when they arise, and this measure is proposed with this in mind.

A related proposal is to make tax free to employees the benefits they receive from employers to cover transportation, board and lodging at distant work sites. This will be important to lumber and mining workers, drilling and exploration crews and employees at isolated bases.

Unemployment insurance premiums will now be deductible, while the benefits will be made taxable.

The list of deductible medical expenses will be expanded to include payments to a school for the care and training of mentally or physically handicapped persons or disabled persons. To keep pace with the development of more modern appliances and equipment to help handicapped or disabled persons, expansion of the list of deductible medical expenses will no longer have to wait on changes made only at budget time. The government will ask Parliament for authority to add to the list by Order in Council.

Medical expenses for which an individual has been reimbursed will not be tax-deductible. However, premiums paid to a non-government medical or hospital plan will be deductible.

The limit on charitable donations is increased to 20 per cent of the taxpayer's income from the existing limit of 10 per cent. Donations to registered national athletic associations which promote amateur athletics in Canada on a national basis will be eligible as charitable donations. Further, the government proposes a re-examination of this area to determine whether the traditional definition of charitable organizations is broad enough to reflect real need in the 1970s.

As part of the goal of defining income more fairly the bill proposes to make certain items taxable. These include:

—capital gains, which I will discuss later;

—manpower training allowances;

—unemployment insurance benefits; and

—the value of medicare premiums paid for an employee by his employer.

They also include scholarships, fellowships and grants, but as suggested by the Commons committee there will be a special $500 exemption.

Averaging Provisions

The bill introduces two types of income averaging which are significantly more generous than the averaging provisions of the White Paper, and replace most of the special provisions under the present law.

The first is general income averaging which will be applied automatically by the Department of National Revenue when income in a year significantly increases over income in previous years.

The second type involves a system of forward averaging. This applies to capital gains, incomes of artists, musicians, actors and professional athletes and to lump sum withdrawals from various kinds of retirement and profit-sharing plans. An individual who receives this kind of receipt in a particular year will be able to cushion the tax effect by purchasing an annuity to spread the income over a period of years.

Many people in our society are engaged in work that brings in a large income in some years and small incomes in other years. Without an averaging system, the progressive rate schedule deals unfairly with them.

At present farmers and fishermen are allowed to average their incomes every five years. This system is continued, but special provisions ensure there is no overlap with the new averaging provisions.

To avoid a retroactive change in the law, individuals making lump sum withdrawals out of pension plans and profit-sharing plans may choose to use the existing formula for the portion of the withdrawal that relates to amounts accumulated up to the end of this year.

Retirement Plans

Mr. Speaker, one of the important changes will increase substantially the deductions for contributions to retirement plans. The limit for pension plans and deferred profit-sharing plans is increased to $2,500 from $1,500. In the case of a pension plan this means that a combined employee and employer contribution of up to $5,000 may be deducted, compared with the present limit of $3,000. In addition, the limit for deductible contributions to registered retirement savings plans is increased to $4,000 from $2,500.

These changes will enable taxpayers to put aside considerably more money for their retirement and will also significantly increase the level of personal savings available to finance growing capital investment in Canada.

Another measure important to Canadian development provides that the foreign investments of pension plans, deferred profit-sharing plans and registered retirement savings plans may not exceed 10 per cent of their assets if they are to qualify for tax-free treatment. I am confident that these changes will have a significant effect in channelling the investments of retirement funds into Canadian development, which otherwise might well have been placed abroad.

At present there are few limitations on the investments that may be made by registered retirement savings plans. The bill introduces restrictions that are similar to those applicable to deferred profit-sharing plans.

Both of these new investment restrictions are effective this evening. They will not be applied retroactively. Investments now held may be retained even though they do not qualify under the new rules. However new investments must meet the restrictions.

• (5:40 p.m.)

Mr. Speaker, as a result of all the changes in taxation of personal income that I am describing tonight, 1,000,000 taxpayers who would otherwise pay tax next year will be removed from the tax rolls. We estimate the taxes will be reduced for 4,700,000 taxpayers, and will be changed by less than 1 per cent for another 2,000,000 taxpayers.

All taxpayers who claim married status and whose income is from wages and salaries will pay less tax in 1972 than they do at the present time. Taxpayers filing as single whose income is from employment will pay less tax than at present on incomes of $8,000 or less.

As I emphasized earlier, the $650 deduction for taxpayers 65 years of age and over, together with the exemption for guaranteed income supplement payments, will also result in significant tax reductions.

Mr. Speaker, before concluding my remarks on personal income tax reforms, I would like to say a word about tax rates as the new system develops through the period 1972 to 1976. I have indicated that for the first year of the new system a high proportion of Canadian taxpayers will pay less tax than at present. I am pleased to inform the House that under the tax reform we shall be able to make progressive reductions in tax rates applying to all individual taxpayers during the years through to 1976.

In my opening remarks, I recalled the undertaking given to the Commons committee, and confirmed many times since, that revenues produced under tax reform as such will not exceed the total that would be produced if the present system were to remain in effect. Through the maturing of capital gains taxation, the closing of loopholes and the higher elasticity of revenues under the new system, substantial additional revenues would be generated as compared with the present tax system. Tax reform envisages that these additional revenues shall be returned to taxpayers.

If any changes are needed to meet new economic and social conditions, government will be required to justify them in seeking legislative authority from Parliament.

I am thus proposing a rate schedule in the tax reform legislation providing for progressive reductions in basic personal tax rates. This will be of increasing benefit to all Canadians, particularly those in the lower income brackets. Specifically, the federal rate of 17 per cent on the first $500 of taxable income will be reduced in each of the years 1973 through 1976 to reach a 6 per cent rate at the end of that period.

Capital Gains

The most important reform to broaden the income tax base is the proposal to tax capital gains. At present Canadians in a position to earn significant amounts of their income through capital gains pay far less tax than other Canadians who receive their income from salary or wages. The debate on tax reform has demonstrated wide support for a capital gains tax.

The general rule will provide that one-half of capital gains will be included in income and taxed at ordinary rates. This, in effect, makes capital gains part of the progressive tax system, taxing gains according to ability to pay. One-half of capital losses will be deductible from taxable capital gains. Individuals may also deduct up to $1,000 of deductible capital losses from their other income. Our system will be similar to that of the United States, which also includes half of capital gains in income.

The White Paper contained proposals designed to exclude most homes from taxation; but many taxpayers feared that their homes might still be subject to taxation. To eliminate this concern, there will be no gains tax on a taxpayer's principal residence.

While this proposal will adequately take care of personal residences, I have been concerned that it might impose hardship on farmers, particularly those with large acreage. Therefore, they will be able to choose either the exemption for residences I have just mentioned, or the exemption formula proposed in the White Paper.

For personal property, such as paintings or antiques, any item or set of items must have a value of at least $1,000 before it could possibly be subject to a gains tax. This amount of $1,000 is twice as high as that in our earlier proposals.

[Mr. Benson.]

I cannot emphasize too strongly that to be subject to a capital gains tax an item of personal property first has to be worth more than $1,000, second, must be the kind of item that increases rather than decreases in value over time, and third, apart from people who leave the country, a change of ownership **must occur.**

• (5:50 p.m.)

The introduction of a capital gains tax requires a starting point, so that only gains after that date will be subject to the new tax. Some time before January 1, 1972, a valuation day will be announced. Generally, capital gains or losses will be measured against the value of an asset on valuation day. This will ensure that gains accrued up to valuation day are not subject to tax.

In some cases, assets may be worth less on valuation day than their original cost. If capital gains were to be measured only from valuation day value, part of the amounts that would be subject to tax might merely be a recovery of cost. The bill will provide that in computing a capital gain, a taxpayer may use either the original cost, or the value of the asset on valuation day, whichever is higher. This will ensure that gains which are simply a recovery of cost are not taxed.

In computing a capital loss, a taxpayer will measure the loss against the lower of original cost or the value of the asset on valuation day.

Alternatively, taxpayers may simply elect to use valuation day value for all their assets.

The most important assets of Canadians will be completely free from capital gains tax. There will be no tax on personal homes or on personal property with a value of less than $1,000.

There is no requirement to send any information to the government on valuation day. Toward the end of this year, the Department of National Revenue will publish an information booklet listing those items which might be subject to tax upon sale, and the type of records taxpayers would find useful to keep.

When a taxpayer leaves Canada, he will be considered to have disposed of all of his assets except those on which we will tax non-residents. The first $5,000 of capital gains will be exempt.

Alternatively, a taxpayer may elect to defer any capital gains that are deemed to arise at the time of his departure, by agreeing to pay tax in Canada in the year in which he sells any of his taxable assets.

The bill will provide that the new capital gains tax system will apply to non-residents on the disposition of certain Canadian assets.

The rule relating to non-residents is, of course, subject to any existing treaties that Canada may have with other countries.

The bill will provide that in a number of situations a capital gain may be deferred. An important exemption from capital gains tax is the transfer of property between a husband and wife by gift or at death. They will not be taxed. The wife or husband will simply take over the property at cost and any subsequent gain or loss will be measured from that cost. Other situations include expropriations, certain business or corporate reorganizations, the incorporation of a proprietorship, the transfer of assets to a controlled corporation and amalgamations.

The White Paper proposed that shares in widely held Canadian companies be revalued every five years. This proposal has been dropped. In its place, the government has adopted the recommendation of the Commons committee, several of the provinces and many taxpayers, to tax accrued gains when a taxpayer dies. The Commons committee also recommended that if this alternative was adopted, there should be a substantial reduction of death duties so that estates would not face the burden of two substantial taxes at the same time. When considering this issue, the government took into account that it receives only 25 per cent of the revenue from estate tax. We felt that an appropriate reduction would have to be of that order of magnitude to compensate for the new capital gains tax.

Accordingly, the government has decided to discontinue federal estate and gift taxes as of January 1, 1972.

Corporate Income

I come now to the provisions of the bill relating to the taxation of corporations and their shareholders.

The most important proposal concerns the basic corporation income tax rates. I referred earlier in my remarks to the fact that the tax reform system as it matures over the next five years will yield additional revenues compared with the present system. The basic corporation tax of 50 per cent at the outset of the new system in 1972 will therefore be progressively reduced in each of the years 1973 to 1976 by one percentage point, so that in 1976 the general rate will be 46 per cent.

This progressive reduction will bring the general corporate tax rate in Canada to a level below that in the United States, our most important trading partner and business competitor. Despite the many changes in our social and economic structure we must continue to look to the private sector and to business corporations to provide the jobs for our rapidly growing labour force and to produce the income required to finance our growing appetite for goods and services. I am confident that this major move to reduce substantially the general corporate tax rate will contribute in an important way to making Canada a most attractive place in which to invest, grow and prosper.

I turn now to some of the other important changes affecting corporations and their shareholders.

Small Business

This government supports the view that entrepreneurial initiative should be encouraged through the tax system. The Canadian economy depends upon the creative business activity of small, growing businesses.

The present low rate of corporate tax on part of the income of corporations is an inefficient method of encouraging the growth of small business. It is available to all corporations, regardless of their size. It is available regardless of the type of income they receive. It is available whether they are foreign-controlled or Canadian-controlled. It is available whether they are owned by large public corporations or by private individuals. And it is available whether they are expanding or static enterprises.

However, with these deficiencies eliminated, a low rate can be an effective way of encouraging initiative by helping small corporations to accumulate capital for business expansion.

The corporate tax on the first $50,000 of business income of Canadian-controlled private corporations will be 25 per cent. This low rate will apply until a corporation has accumulated $400,000 of taxable income under the new system. It will not be available to public corporations or to foreign-owned corporations or their subsidiaries.

If a corporation does not wish to expand its business in the year in which he small business incentive is earned, it can invest in short-term debt securities, or pay dividends to its shareholders. The dividends will, of course, be taxable in the shareholders' hands and, as a result, the income of the corporation will be taxed at the marginal rate of the recipients.

If a corporation employs the tax savings that result from the low rate for non-business purposes, such as portfolio investments, a special refundable tax will be imposed to recover the low-rate benefit.

We intend that the small business incentive be available only to Canadians and that it encourage Canadian ownership of our expanding businesses. Accordingly, if control is acquired by non-residents, the corporation must repay, over a five-year period, the tax saving it has received.

(6:00 p.m.)

It had been my hope that a system might be developed to aid unincorporated as well as incorporated businesses. A great deal of time and effort has been spent toward achieving this goal both inside and outside government. Unfortunately, all the proposals were found to be unworkable. Accordingly, we reluctantly decided to restrict the small business incentive to incorporated business.

Double Taxation

Mr. Speaker, one of the problems of the present tax system is the double taxation of corporate income. One tax is imposed when the income is earned by the corporation, and a second when that income is distributed to the shareholders.

The White Paper proposed a comprehensive new system to deal with double taxation and to give Canadians an incentive to buy shares of Canadian corporations.