SUPPLY

The house in committee of supply, Mr. Rea in the chair.

The Acting Chairman (Mr. Rea): It being six o'clock, I do leave the chair.

At six o'clock the committee took recess.

AFTER RECESS

The committee resumed at eight o'clock.

DEPARTMENT OF FINANCE

General administration—

119. Departmental administration, $2,157,871.

Hon. Donald M. Fleming (Minister of Finance): Mr. Chairman, the Department of Finance estimates as printed in the blue book show an increase in the amount to be voted this year over last year of just over $10 million. If the details are examined, however, it will be seen that more than all this increase is covered by two kinds of grants—grants to municipalities in lieu of taxes and grants to universities. Apart from these two sets of grants we are asking parliament to vote slightly less money than was required a year ago for the administration of this department.

I should, however, in this opening statement take into consideration not only the main estimates but also the supplementaries of both years. The principal large item in this year's supplementaries is $32 million for the general salaries vote. This is more than offset however by the $50 million special vote to the superannuation account which was appropriated in last year's final supplementaries. Taking this year's main estimates and supplementaries and comparing them with last year's main estimates and supplementaries, I am asking parliament to vote the Department of Finance about $9 million less than a year ago.

While parliament is not called upon to vote the statutory items I should like to refer to them. In the Department of Finance statutory items constitute more than 95 per cent of total expenditures. In the printed record these items add up to almost $1,100 million and show an increase of $154 million over last year. Of this $154 million increase, $128 million was in increased transfer payments to the provincial governments. After the book of estimates was printed the province of Ontario decided to levy and collect its own corporation income tax. This is the principal reason why our transfer payments to the provincial governments will be $10 million less rather than $128 million more than a year ago. In total, I expect the statutory expenditures relating to the Department of Finance to be not much more than $40 million over last year and this will be wholly due to the higher cost of the public debt.

Hon. members will not be surprised if I say that the Department of Finance, which is not a large operating department, is usually able to estimate its administration expenses quite accurately and that it does not provide much place for operating economies. I shall, however, be able to move a small reduction in vote 121 when we reach that item.

Mr. Chairman, I have been asked several times in the house to give a financial statement. I welcome this opportunity of doing so and not least of all because of some of the things that are currently being said outside this house. *The Globe and Mail* of December 5 contains a news article from which I read the following:

> London, Ontario, December 4—Unless the Conservatives make drastic cuts in expenditures the government will end up with a deficit by the end of the fiscal year next March, former finance minister Walter Harris, predicted here today.

We shall see shortly.

The Toronto *Telegram* of December 5 ascribes to the hon. member for Winnipeg North Centre a statement made, I believe, in the city of Hamilton the previous night. The article says he accused the government of "hiding the books from parliament until after the next election." I doubt if any of the members of the audience who heard the hon. member make that statement, if he did make it, would be so gullible as to believe it. There will be an opportunity of judging shortly whether that is a responsible or an irresponsible statement.

I would like to make this comment in advance of giving to the house the details of the financial statement. When this government came into office on the 21st day of June the fiscal year was already three months advanced. The programs for the year had largely been undertaken; expenditures and commitments had been entered into. We entered upon our tasks while the government was already in midstream and that fact I think should be borne in mind as we weigh and assess what the government has been able to do.

My predecessor, in presenting the budget for the current fiscal year last March, forecast revenues of $5,170 million; expenditures of $5,018 million and a surplus of $152 million. We have now reasonably complete figures for eight months of the year and thus are able to make revised estimates which reflect both the changes in economic development and changes in government policies.

On the revenue side of the accounts I am prepared to accept the forecast which was presented to the house last March. At present it seems probable that receipts from income taxes will be somewhat above the forecast and revenues from customs duties and some commodity taxes will be somewhat below the earlier anticipations, but, on balance, I expect that the various increases and decreases will just about cancel each other out, leaving the total revenue figure unchanged at $5,170 million.

On the expenditures side of the accounts my predecessor had forecast a total of $5,018 million. Since then there have been substantial increases in expenditure arising in part out of changing economic developments and in part from new policies which we have recommended and which parliament has approved. For example, we are having to find an additional $25 million for interest and other charges on the public debt as a result of the sharp increase in interest rates which occurred during the spring and summer months. Then I am advised by the management of Canadian National Railways that reduction in the volume of rail traffic and higher costs of operation will mean that we shall have to meet a deficit in the railway's operation of about $28 million.

On the policy side, hon. members will recall that increases in public service salaries and in the defence services pay and allowances have been approved in an amount which will total about $100 million for the 11 months of the fiscal year commencing May 1, including statutory matching payments into the superannuation account. The increase in old age pensions is responsible for most of the increased deficit in the old age security fund of $50 million. Increases in our contributions to old age assistance and to the blind and disabled persons allowances will cost the federal treasury an additional $1 million this year. Increases in veterans benefits will add a further $3 million to this year's expenditures, and the recent agreement with the provinces to eliminate the "threshold" on unemployment assistance will also cost us $3 million in this fiscal year. All these increases add up to $210 million.

Against this large increase in expenditures we have been able to make substantial savings. While the increases in civil service and defence services pay and allowances will cost $100 million the departments have found it possible, by general economies, to absorb part of this increase and, in fact, only $76 million will be added to this year's expenditures out of the total of $210 million.

In addressing ourselves to the task of eliminating unnecessary expenditure we have been guided by two principles: first that there shall be no reduction in any essential public service and, second, that where items involve construction which means employment, those items are not being reduced. Furthermore, by careful scrutiny and by controlling certain expenditure programs my colleagues have been able to indicate various reductions and savings in estimated expenditure which will add up to almost exactly $40 million. In addition my colleagues have been able to curtail certain loans and advances in the amount of about $6 million.

Finally, I do not propose to adopt the practice of my predecessor to transfer large lump sums of $50 million each into what he called "the reserve against assets" and to reduce the unamortized deficit in the superannuation account. I consider it quite unnecessary to do so.

These savings and reductions in expenditures add up to the very substantial total of $164 million, leaving me with an expected expenditure of $5,064 million and an expected surplus in this fiscal year of $106 million. For the convenience of hon. members and with consent I should like to insert here a table showing the various increases and decreases in expenditure to which I have referred.

The Acting Chairman (Mr. Rea): Has the Minister of Finance permission to insert this table?

Some hon. Members: Agreed.

Mr. Fleming: The table is as follows:

Forecast of Expenditures, 1957-58
(In millions of dollars)

Expenditures as forecast in March, 1957		$5,018
Add:		
Increase in debt charges	$ 25	
Expected deficit, C.N.R.	28	
Increases in pay and allowances	100	
Increases in old age security fund deficit	50	
Increase in contributions toward old age assistance and blind and disabled persons allowances	1	
Increase in veterans' benefits	3	
Increase in unemployment assistance	3	
Total Increases	$210	
Deduct:		
Savings and reductions	$ 64	
Provision for general asset reserve	50	
Provision for reduction in unamortized portion of the deficit in the superannuation account	50	
Total deductions	$164	
Net increase in expenditure		46
Total expenditures, 1957-58		$5,064

I have also been asked at different times as to what is the government's financial program. I should now like to indicate the intentions of the government in the matter of financial and fiscal changes which will be submitted to the house in due course for legislative action.

This, as hon. members do not need to be reminded, is not an ordinary or regular session. It is a session called in the fall of the year under circumstances that limited the duration of the session. Its purposes, as the Leader of the Opposition well indicated a few days ago were, first, to vote the approximately 800 items of supply which had not been voted at the time of dissolution and, second, to afford the government an opportunity of laying before parliament for action this fall that constructive program of legislative action which the electorate of Canada had approved on June 10.

One of the undertakings given to the Canadian people in that campaign by that distinguished man who is today the Prime Minister of Canada was that we would reduce taxes. I am not proposing now nor do I intend to propose at any time in this session any increases of any kind in taxation. That made it quite unnecessary to submit to the house anything resembling a budget. The budget for this year was submitted to the house last spring by the then minister of finance. There will be ample opportunity for every member of the house to express whatever opinions he chooses on any of the matters upon which I am now about to indicate the intentions of the government.

May I in passing point out, Mr. Chairman, that it has been quite impossible in the short space of time the government has been in office to take up those matters which the Minister of Finance normally reviews in preparing a budget. There has been no time in which to deal with the wide range of fiscal matters that come to the Minister of Finance apart from those that relate directly to taxation about which I shall shortly have something to say. But I wish to make it abundantly clear that never have I said that there would be that kind of budget presentation which is characteristic of a normal session of parliament. I have said that we would submit to the house such measures as are required to implement the undertakings which we gave to the public in the campaign; and that, Mr. Chairman, is precisely what we shall do.

There are several matters to which reference must be made which require some remedial legislative action. The bill which I hope to introduce will include a change in the corporate tax structure which will be, I trust, of benefit to certain small corporations.

But I wish, first of all, to deal with a specific matter affecting construction workers. This is a matter which requires an amendment to the Income Tax Act before the end of this calendar year. It is the matter of certain allowances paid to construction workers by their employers to cover expenses of the worker while he is living away from his normal place of residence for a period of time at a construction site. Hon. members will recall that this problem first was brought to public attention by the publication by the Department of National Revenue of a directive entitled "Information Bulletin No. 10" on July 10, 1956. This directive announced that construction workers must thereafter include for tax purposes certain per diem and other allowances received from their employer, whether paid in cash or in the form of free board and lodging. This matter was debated at some length this spring when income tax amendments were under consideration. Some of us then in opposition protested strongly against the effect of this directive, and finally the then minister of finance stated that the rule contained in Bulletin No. 10 would not apply to incomes in 1956 but that the allowance would be taxed commencing in 1957.

For many years it has been the practice for employers in the construction industry to provide board and lodging for workers at remote sites or to pay them an allowance over and above the going wage as reimbursement for expenses of meals and lodging where those were paid for by the worker himself. It is also customary for the construction employer to bear the expense of transporting employees to distant construction sites and bringing them back to their normal place of residence. Throughout the years this has been normal procedure in this industry, and the construction workers did not include in their income for tax purposes the value of these allowances or expenses paid on their behalf by their employer. Then with the issuance of Bulletin No. 10 in 1956 the previous government made it known that these amounts were taxable under the existing law and employers had been under instruction in 1957 to report those allowances as income of their employees.

It is my intention, Mr. Chairman, to restore the practice which prevailed prior to 1957. In order to put this matter beyond doubt I intend to introduce an appropriate amendment to the Income Tax Act effective from January 1, 1957. This amendment, which is necessarily somewhat technical, will appear in detail in the bill. Briefly it will provide that if the construction site is so distant that the worker cannot reasonably be expected to return daily to his normal place of residence where he maintains a home in which he lives with his wife or some dependent person, then the construction employee will not be required to include in his income for tax purposes the value of the free board and lodging or reasonable allowances paid to him to cover expenses of meals and lodging, or the value of travelling expenses paid by the employer in transporting him to the site and back home again.

The next matter concerns the corporation tax to be paid by certain corporations earning profits in the province of Ontario. In a normal session a bill to give tax relief measures would be the occasion for dealing with a wide variety of miscellaneous technical changes in the income tax structure. This general review of miscellaneous changes in the law will be undertaken in the course of preparation of the budget for the next session. However, I give public notice now of one particular matter which will be the subject of corrective legislation at the next session.

Under the provisions of section 40 of the Income Tax Act, federal corporation income tax is reduced by nine percentage points on profits earned in a "prescribed" province: that is, in a province that does not rent this tax field to the federal government pursuant to the Federal-Provincial Tax-Sharing Agreements Act. This tax abatement enables a province to impose its own tax up to this nine per cent level without raising the combined tax above the general federal rate.

In the five-year period prior to 1957 the federal tax abatement was only seven percentage points and Quebec was the only province imposing its own corporate tax of seven per cent. For 1957 Ontario became a prescribed province and profits earned in the province from January 1, 1957 onward accordingly became entitled to a reduction of nine percentage points in their federal tax. Inadvertently, however, the law introduced by the former government in granting this reduction for 1957 gave also to Ontario companies whose fiscal year does not coincide with the calendar year abatement in respect of that portion of their profits earned in 1956. This pattern of reduction was, of course, appropriate and necessary for profits in Quebec since Quebec was taxing profits in 1956. The result of this fault in the federal legislation is, however, that relief is given at the rate of seven percentage points for corporations earning profits in Ontario for a period when no Ontario tax was imposed at all. Obviously this error must be corrected, otherwise about $12 mililon of unintended tax relief would go to a particular group of non-calendar year companies earning profits in the province of Ontario at a time when no provincial tax was imposed upon them.

I have already reminded the committee that this government promised if elected to power to reduce taxes. It is our purpose, sir, scrupulously to fulfil this promise. I do not need to tell hon. members that it is one of the more pleasant duties of the Minister of Finance to come before the house and announce some reduction in the heavy burden of taxes that previous governments have imposed on the people of Canada.

The bill which I shall introduce will include a change in the corporate tax structure which would be particularly important for small corporations. At present the low tax rate of 20 per cent is confined to profits up to $20,000 per annum. In future, from January 1 onward, the low tax rate will extend up to profits of $25,000. Of course, every corporation with profits in excess of this figure will enjoy some benefit from this tax concession but the change will be of greatest significance to relatively small corporations. About 2,000 corporations with profits between $20,000 and $25,000 will have the tax on profits within this range reduced from 47 per cent to 20 per cent. This relief measure will cost the treasury about $12 million on a full year basis and about $1 million in the current fiscal year and I believe it will give a stimulus and incentive to business in small corporations.

Mr. Chairman, I wish to table at this point for the convenience of hon. members the table indicating the effect of increasing the bracket of corporation income tax.

The Acting Chairman (Mr. Rea): Does the hon. minister wish to put it in *Hansard?*

Mr. Fleming: Yes.

The Acting Chairman (Mr. Rea): Is this agreeable to hon. members of the committee?

Some hon. Members: Agreed.

Mr. Fleming: The table is as follows:

Effect of increasing the bracket of corporation income subject to the 20% tax rate from $20,000 to $25,000

Income of corporation $	Present tax $	Proposed tax $	Reduction in tax $	%
25,000	6,350	5,000	1,350	21.3
30,000	8,700	7,350	1,350	15.5
35,000	11,050	9,700	1,350	12.2
40,000	13,400	12,050	1,350	10.1
50,000	18,100	16,750	1,350	7.5
75,000	29,850	28,500	1,350	4.5
100,000	41,600	40,250	1,350	3.2
200,000	88,600	87,250	1,350	1.5
300,000	135,600	134,250	1,350	1.0
500,000	229,600	228,250	1,350	.6
1,000,000	464,600	463,250	1,350	.3

The old age security tax of 2 per cent is included in the taxes shown above.

I also have something to say concerning the Excise Tax Act. Under that act the special excise tax on automobiles is now 10 per cent. I intend to introduce an amending bill to reduce this tax to 7½ per cent. This reduction which is equivalent to 25 per cent of the tax will be effective as from midnight and it is estimated to cost the treasury about $20 million on a full-year basis and approximately $8 million for the balance of the current fiscal year.

As recently announced by my colleague the Minister of National Revenue on December 2 a refund will be given to authorized dealers and distributors in respect of tax already paid on floor stocks of new cars on hand. This will relieve them of any loss resulting from the tax decrease, and spare them a repetition of the heavy losses that they sustained the last time this tax was reduced. The government has received assurances given on behalf of all automobile manufacturers that the benefit of this reduction will immediately appear in the manufacturers' wholesale prices and suggested retail prices. The government will expect this tax reduction to be reflected at once in the price of new cars to the public.

I now have a word to say concerning personal income tax. The first measure of relief I intend to propose to personal income taxpayers is an increase of $100 in the allowance for dependents under the Income Tax Act. This means that commencing January 1, 1958, the deduction from income for children of family allowance age will be increased from $150 to $250 per annum. For all other dependents the present $400 deduction will be raised to $500. Basic personal and marital exemptions remain unchanged.

In addition to giving much deserved relief to taxpayers with dependent children and other dependents this increase in the deduction will have the effect of freeing completely from income tax about 100,000 taxpayers and will give substantial tax relief to about one and three-quarter million other taxpayers. For a full year this measure of relief will cost the treasury about $60 million. For the current fiscal year the cost in revenue loss will be about $7 million.

The second measure of tax relief for personal income taxpayers which I shall propose will, as from January 1, 1958 reduce tax rates in the first two brackets of income in the rate structure. On the first $1,000 of taxable income the present rate of 13 per cent will be reduced to 11 per cent. The 15 per cent rate on the second $1,000 of taxable income will be reduced by one point to 14 per cent. These changes in the rate structure will benefit every income taxpayer in Canada, of whom there are approximately four and one-half million persons.

There are, however, about 3 million taxpayers, or about 70 per cent of the total, who have taxable incomes—that is to say, income after exemptions—of not more than $2,000. Thus, 70 per cent of all income taxpayers affected particularly by these rate changes will enjoy a substantial percentage reduction in their income tax, just over 15 per cent in the case of taxpayers in the first $1,000 bracket and about 11 per cent in the case of those in the second $1,000 bracket. This reduction—

The Acting Chairman (Mr. Rea): I am sorry to inform the Minister of Finance that his time has expired.

Some hon. Members: No.

The Acting Chairman (Mr. Rea): Has he permission of the committee to proceed?

Some hon. Members: Agreed.

Mr. Fleming: I thank the committee for extending that courtesy to me.

Mr. Sinclair: Mr. Chairman,—

The Acting Chairman (Mr. Rea): Order.

Mr. Sinclair: —I would point out that the Minister of Finance chose this way to present his budget address in this committee of the whole and the rules of the house and constitutional practice apply equally to himself and they provide that a member can speak for only 30 minutes in committee.

Mr. Nowlan: That is quite right.

The Acting Chairman (Mr. Rea): Order. When I asked for unanimous consent I did not hear any noes and in my opinion the committee gave unanimous consent.

Mr. Coldwell: I think the committee will give consent. What the hon. member said is perfectly correct. The minister told us that he would abide by the rules of the house. Had the minister introduced this matter in the way it should have been introduced there would be no discussion of this sort. I am not objecting, but I want to remind him that this is contravening the rules of the house.

Mr. Sinclair: That is exactly the position of the official opposition. I want to remind the minister that if he had followed the constitutional practice of doing this on a ways and means resolution he would have had unlimited time and I would have had