I can draw the same conclusion in the Middle East: "You have it, I want it." But who is helping those who say, "I want it too"? We should do some soul-searching. Canada may not be part of it, but certainly the United States is. Eisenhower said in one of his last speeches that the greatest danger to world peace was the immense danger of the military industrial complex. That is a great danger because of the need to produce arms. These arms must be used on infrastructure so that infrastructure can be rebuilt. If infrastructure is rebuilt, it must be destroyed by the most sophisticated arms in order to fabricate more sophisticated arms. That is craziness.

If this bill brings a little sanity, I am more than willing to support it. I am more than willing to pay homage to those who worked faithfully to put it forward. I am more than willing to give total agreement to both senators who introduced it in the Senate.

In the spirit of rapprochement, may I suggest that honourable senators read the speech of Mr. Keith Martin from British Columbia. He is probably English-speaking and I am French-speaking from Quebec, but perhaps I can help him and the unity of Canada by drawing the attention of honourable senators to that speech. He went further, and said that the next step should be to start looking into the peddlers of arms who are at the disposal of anyone.

We should also look at what is happening in Croatia. Recently, I travelled to Albania and heard who is selling arms. Who are the peddlers of the small arms and bombs that cause so much damage to citizens and maim people? They are available by the millions in certain countries in the world. Who is producing them? I certainly wish to tell Mr. Martin that I will give him absolute support.

If we want a sane planet, we must address every question. We must be unafraid to talk about those who refuse to sign the non-proliferation treaty on nuclear arms and then tell us to our face that they do not have them. How can I stand here and say that I believe them? I do not. They create instability in one part of the world. They create immense instability between Pakistan and India. The peddlers of those arms know what they are selling. Where do they come from?

I suggest honourable senators read some of those books. They are very enlightening because of the names that are mentioned and the events that are described. I am a curious man. I do not take anything for granted, and I am sure that my Liberal colleagues know me.

• (1820)

[*Translation*]

I am a French–Canadian and, being of both Breton and Norman ancestry, I am very suspicious and equally stubborn.

[*English*]

I am very stubborn, and very suspicious. This is supposed to be my ancestry.

However, I totally support this bill. I hope it is only the first step toward more study to look at the peddling of small arms, which creates so much instability in 40 places of the world at the moment. Nuclear arms should also be studied, because the Senate could help bring more sanity to our planet.

Motion agreed to and bill read the second time.

REFERRED TO COMMITTEE

The Hon. the Speaker *pro tempore*: Honourable senators, when shall this bill be read the third time?

On motion of Senator Graham, bill referred to the Standing Senate Committee on Foreign Affairs.

INCOME TAX ACT

BILL TO AMEND—SECOND READING

Hon. Céline Hervieux-Payette moved the second reading of Bill C-70, to amend the Income Tax Act, the Income Tax Application Rules and related acts.

She said: Honourable senators, I rise to seek your support for Bill C-70, an act to amend the Income Tax Act. This bill will implement a number of measures introduced in the 1994 budget. It also implements a number of other measures announced by the government during the course of last year.

The dual goals of this bill are deficit reduction and enhanced tax system fairness. These are objectives that Canadians clearly want their government to pursue. They are the principles that have guided this government, and it has worked to restrain its spending.

Instead of imposing general tax hikes on Canadians in 1994, this government took direct aim at unsustainable tax preferences in its budget plan. With regard to the corporate tax regime, the 1994 budget sought to ensure that corporations paid their fair share of the tax revenues needed to fund government programs and to prevent certain businesses or sectors from taking undue advantage of certain tax provisions.

Accordingly, the 1994 budget proposed a number of measures to the rules governing the taxation of business income, designed to increase tax fairness and ultimately improve the competitive position of Canadian business. Bill C-70 is a key component of the measures that were taken.

One of the key issues with which Bill C-70 deals is the tax treatment of debt forgiveness and foreclosures. Under the old provisions of the Income Tax Act, many transactions involving the settlement of debt were not recognized in any meaningful way for income tax purposes. The new rules provide a comprehensive basis to deal with debt settlement. In general, they provide that forgiven debt amounts will be applied to loss carry-forwards and expenses, or partially included in the debtor's income. There are special rules contained in Bill C-70 that minimize any undue hardship from the new rules regarding debt forgiveness.

Another key area with which Bill C-70 deals is how it changes the rules regarding the tax treatment of securities held by financial institutions. Until now, the Income Tax Act has not provided specific rules regarding the tax treatment of such securities. The measures proposed in this bill seek to reduce uncertainty in this regard, and also to ensure that the income derived from such securities is measured appropriately.

The amendments provide that certain securities will be marked to market. This means that the appreciation or depreciation in the value of securities held by financial institutions will be recognized in each year instead of on disposition. To be fair, the amendments include a transitional rule that allows increases in income resulting from the new rules to be spread over five years, and the new measures are only effective after February 21, 1994.

In addition, Bill C-70 provides new rules for debt securities that are not required to be marked to market. These rules deal with the measurement of income while the securities are held, and the treatment of gains and losses on disposition.

A large part of Bill C-70 deals with reforming the rules in the ITA regarding foreign affiliates. Bill C-70 amends the rules for the taxation of resident shareholders of foreign affiliates. The changes expand the categories of income of foreign affiliates which must be reported as income of their Canadian affiliates. They also prevent the use of a foreign affiliate's active business losses to reduce Canadian shareholders' income. This last change protects the Canadian tax base.

These three measures that I have just described all flow directly from the 1994 budget. Bill C-70, however, also contains other tax changes announced during subsequent months. The key changes in this category include changes to how funeral arrangements, real estate trust and mutual trust are taxed. In addition, Bill C-70 proposes new rules to speed the resolution of tax objections and tax appeals, particularly by large corporations, and it deals with the rules regarding dividend compensation payments.

Briefly, under the heading of "funeral arrangements", Bill C-70 addresses the issue of eligible prepaid funeral and cemetery arrangements. Under this legislation, individuals making such arrangements would not have to declare interest on the deposits up to a $15,000 maximum contribution as income, provided the deposit is not withdrawn for other purposes. The provider of eligible funeral and cemetery arrangements is, however, required to include in income the full amount received from an eligible arrangement.

Under the heading "real estate trusts", Bill C-70 proposes that real estate trusts with publicly traded units be allowed to qualify as mutual fund trusts. This measure will assist the real estate sector in expanding the available methods of financing real estate.

Under the heading of "mutual trusts", Bill C-70 seeks to help mutual funds reduce overhead costs and improve service to investors. These amendments allow mutual fund corporations to convert to mutual fund trusts on a tax-free basis and also allow tax-free mergers of mutual fund trusts.

Significantly, under the heading "objections and appeals", Bill C-70 proposes new rules to speed the resolution of tax objections and tax appeals. Under Bill C-70, large corporations will now have to specify the issues under dispute, the amount of relief sought, and the facts and reasons for objecting.

The rules also limit the ability of large corporations to raise new issues in a notice of objection where the objection relates to a reconsideration of an assessment. However, new issues raised by Revenue Canada on such reconsiderations may still give rise to notice of objection. In addition, this legislation will ensure that the new requirements relating to notices of objection will not apply to assessments which have been appealed to court before this legislation receives Royal Assent.

The final measure I wish to highlight in Bill C-70 deals with the tax treatment of dividend compensation payments and other amounts connected with securities lending. The Income Tax Act currently provides that the lender of securities not be treated as having disposed of the security under these arrangements. As well, payments to the lender as compensation for dividends are treated as dividends in the lender's hands.

• (1830)

While these dividend compensation payments are generally not tax deductible, a special rule established in 1989 allows securities dealers to deduct two-thirds of such payments.

This legislation extends the use of the two-thirds rule, thus ensuring that our securities industry remains competitive. The deduction of these payments will be somewhat limited, but it is the government's intention to monitor these measures to make certain that they operate effectively. Other changes clarify the effects of certain dividend rental arrangements and the meaning of securities dealers registered or licensed to trade in securities for purposes of the Income Tax Act.

In closing, let me express my confidence that any objective appraisal will confirm that Bill C-70 amends the Income Tax Act effectively and equitably. It clearly aims at targeting tax assistance to certain business sectors on a more efficient basis while, at the same time, broadening the tax base.

This is an important step in sustaining government revenues, so that our deficit-reduction goals can and will be met. The legislation contained in this bill also clarifies a number of important issues related to the act. In considering the measures before us, I have no hesitation in encouraging all my honourable colleagues to support this bill.

[*Translation*]

Hon. Jean-Maurice Simard: Honourable senators, as the honourable senator who moved the second reading of the bill indicated, this bill is coming to us late in the day. I guess it is better late than never. In fact, it arises from measures announced in the 1994 budget.

Unfortunately, this is another bill that will not be given due consideration, for it was referred to us in the past few days, as the session draws to a close, along with several other bills.

All the same, I hope that the banking and commerce committee will review it and that the government — as I will explain later, this is not so much a routine bill as one that will have the effect of consolidating considerable revenues, certainly much more considerable than what the government seems ready to admit at present. I will give you some examples in a moment.

The bill contains measures arising from the 1994 budget that were not covered by an earlier bill, namely last year's Bill C-59.

[*English*]

Yes, Bill C-70 deals with other changes announced in 1994, unrelated to the 1994 budget, such as prepaid funerals, real estate investment trusts, mutual fund reorganization, income tax objection and appeals, and security lending. I will limit my intervention to some of the substantive changes found in this bill and their effects on the revenue of government.

Bill C-70 pertains to measures taken in the infamous 1994 budget — infamous because, on the expenditure side, the government did not do what was expected and, therefore, the budget is "well thought of" as a lost opportunity in terms of getting an early handle on controlling the deficit and the debt.

Despite the failures inherent in the 1994 budget, the substantive budget measures found in this bill include debt forgiveness following failures in financial institutions, as mentioned by the sponsor of the bill.

Let us deal first with the so-called housekeeping measures. Yes, Bill C-70 tackles the tax rules which apply when debt is settled by forgiveness or foreclosure. Yes, this bill expands the classes of foreign-affiliate income which Canadian shareholders must report. Last, this bill makes several changes to the rules concerning securities held by financial institutions. For example, such a firm will now report gains and losses in securities held in the ordinary course of business on their income, rather than on their capital account, and report profits and losses on certain securities on a mark-to-market basis.

Thus, honourable senators, as you can see, Bill C-70 is such that it may be considered a housekeeping bill by some. In fact, it will not surprise many in this chamber to learn that the minister himself appears to regard this bill as such. It is his way of having Canadians swallow the pill without feeling the effects already.

However, I and other Canadians are interested to know what tax revenue implications will result from this Bill C-70 becoming law. Undoubtedly, the good investigative work of the Standing Senate Committee on Banking, Trade and Commerce will reveal the extent of increased tax revenue resulting from this bill, and the truth will come out.

I am sure many of my colleagues on the government side are of the mind that their government holds the line on taxes. I beg to differ. Taxes are clearly rising under this Liberal government. Bill C-70 is taking us in that direction.

Fellow senators, let us not forget that the combined effects of the 1994-1995 budget was to raise personal, business and sales taxes by more than $3 billion per year. We are back to the infamous Liberal years, "tax and spend" years.

Today, taxpayers in some provinces pay an unfortunate combined rate of federal-provincial personal income tax as high as 54 per cent. Since October 1993, taxpayers have witnessed the elimination of the $100,000 lifetime capital gain exemption, the effect of which is most severe on seniors, many of whom will not receive their old-age supplement in this new tax year because this government required that they report their capital gains as income without having actually disposed of the asset in order to use the now-eliminated capital gains exemption.