

*Income Tax*

Clause 12 agreed to.

On clause 13.

**Mr. Stevens:** Mr. Chairman, this is dealing with the question of advertising involving television stations and broadcasting. Perhaps the minister could lead off by giving a fuller explanation of what they hope to achieve by this clause.

**Mr. Chrétien:** I would like to give the explanation in my own words first. The amendments to clause 14—

**Mr. Stevens:** No, clause 13.

**The Chairman:** The hon. member for Sault Ste. Marie—unless the Minister of Finance is not finished.

**Mr. Chrétien:** I will allow the hon. member for Sault Ste. Marie to go ahead.

**Mr. Symes:** Mr. Chairman, I support clause 13. It relates to Bill C-58 which we had before the House earlier. It deals with the problem of advertising placed on American border television stations which was draining about \$20 million a year from Canadian television stations. This amendment is to prevent such advertising from being deductible for Canadian companies for income tax purposes. I feel there is a loophole under the legislation as it is designed because it seems to me the clause in section 19(1) does not have the anti-avoidance affect which was presumably intended by the budget resolution, because the clause only refers to the date on which the contract was paid, and not the date on which it was executed. With the present clause, there is still the potential for long term contracts to have been executed before January 23, 1975, and paid before September 21, 1977, to escape tax liability. I wonder if the minister might explain if my interpretation is correct.

**Mr. Chrétien:** The interpretation of the hon. member I feel is incorrect. The amendment is exactly to cope with the problem the hon. member is dealing with, and I can read this technical section or explanation here. Some taxpayers sought to take advantage of this traditional deduction by signing a series of successive one year contracts in the hope of avoiding this allowance for an extended period of years. We are just closing the loophole with this clause 13.

**Mr. Symes:** Mr. Chairman, for further clarity, specifically then, if a long term contract was executed before January 23, 1975, and paid for before September 21, 1977, that contract would therefore not escape tax liability, according to the minister. It is that specific time frame with which I am concerned.

**Mr. Chrétien:** I do not follow the hon. member very clearly, but perhaps I can read these three lines. This amendment will ensure that the expenses will not be deductible if they are incurred after September 21, 1977, one full year after the section of the act was proclaimed in force. Therefore they cannot have a long term contract because the clause will cover them after the expiry of the first year.

[Mr. Chrétien.]

**Mr. Friesen:** Mr. Chairman, as an example, a hotel chain that wishes to advertise in American journals, American magazines down the west coast and in Florida—is that considered a legitimate advertising expense, a deductible expense for the purpose of bringing business into Canada? We are interested in tourism, and I would like to know. Perhaps the minister could answer that.

**Mr. Chrétien:** It will be deductible because it is not directed to the Canadian market. It is advertising which is directed to the American market to induce them to Canada. However, if they were to advertise in an American magazine to ask Canadians to buy a certain car in Canada, that will not be permitted.

**Mr. Friesen:** Just outside of Vancouver in Bellingham, Washington, we have an American television station. There are a lot of Canadian businesses that like to advertise on that television station, both for the benefit of the Canadian market as well as for the American market. I would ask the minister what is the difference between advertising on that television station and advertising in periodicals down the west coast for the businessman in the Vancouver area?

**Mr. Chrétien:** The Department of National Revenue will have to assess whether the advertising is directed to the Canadian clientele. If it is not directed to the Canadian clientele but the American clientele, that could be deductible. The ruling will be made by the Department of National Revenue after looking into the nature of the advertising program. If it is buying time on American television by Canadian businessmen for Canadian clientele this is not deductible. If it is for an American market, that can be deductible.

**Mr. Friesen:** Is the minister then saying that for a Canadian businessman advertising on a television station in Bellingham, Washington, trying to attract American business into Canada, his advertising expense is going to be a legitimate deductible business expense?

**Mr. Chrétien:** According to the law there will have to be a ruling by the Department of National Revenue, as the terms of the act are directed primarily to the market in Canada. This is not deductible, and National Revenue will have to look at the nature of the advertisement. Of course, because it is a border case you are taking one of the most difficult points. To simplify it you would be better off with the first question. If the advertising in California invited the Americans to come to British Columbia, it is deductible because it is directed to the American market. If you advertise at the border to attract the attention of the Canadian consumer through an American television station, this will not be deductible.

**Mr. Friesen:** I asked a difficult question knowing the minister is equal to it. I simply want to establish the point that there are some deductions available for advertising on American television stations. Some are available as a legitimate tax deductible expense to a Canadian business? That is the principle I want to establish.