

Income Tax Act

cannot make it here this afternoon, so my parliamentary secretary will be here. That is my response to the hon. member for Thunder Bay-Atikokan, who I thought was not playing the game when he carried on as he did here yesterday. I would certainly challenge the hon. member's inference that I am a lazy no-good who does not want to pay any attention to this House. I do not accept that, nor do I think that it is the way to play the game.

Mr. Johnston: Mr. Chairman, I have found the replies of the parliamentary secretary to have been most helpful and most sensible, as contrasted with the replies we receive from the minister himself during question period.

Mr. Crosbie: There is advantage for us all.

Mr. Johnston: I am delighted that we will be having further participation from the parliamentary secretary during the course of this debate on these various financial bills.

I would like to raise a question which really follows on a question raised by the hon. member for Dollard yesterday with regard to the so-called loophole. I think it is important, not in defence of the loophole but simply important, that the Canadian people understand exactly what the consequences of this legislation will be in terms of the lending practices of banks and the impact this will have upon certain borrowers. The hon. member for Broadview-Greenwood has made reference to the rate that banks pay on numerous occasions. The banks have taken advantage of this provision because it permits them to receive either interest on income debentures or dividends on preferred shares, and both are treated as dividends for tax purposes which are tax exempt or are deductible in the banks' hands. Therefore, the borrower is permitted in effect to obtain funds at a rate from banks much less than would be the case were the banks to receive taxable interest in the funds, which are in substance advanced to those various borrowers.

One can borrow with this kind of financing, and one can perhaps criticize this kind of financing, but I think it important for the people that they understand that with the elimination of this financing these same borrowers will be placed in a position of having to pay the normal bank rate instead of a rate of approximately 50 per cent, which they are now paying and which they are able to do out of their cash flows because they do not require the deductions for tax purposes. This presumably protects their cash flows from taxes through depreciation or some other division.

I raise the point because I would like some indication from the parliamentary secretary or the minister that that indeed is the case. I make this point largely from memory, but it seems to me that that is the thrust of the loophole and that in substance it is not really what it is often portrayed to be, and that is that there is some kind of major rip-off here, that the banks are effectively receiving a much lower return, but that they are prepared to accept it because they are receiving it in substance on a tax free basis. I think that this question should be explained fully by the government in the course of the passage of this bill.

[Mr. Crosbie.]

Mr. Rae: I would like to respond to what the minister had to say earlier. Hon. members may remember that the hon. member for Saint-Henri-Westmount should be cloned by the financial critic. Perhaps he should be cloned. I can certainly understand the minister's position, and as for the inference he drew from the remarks of the hon. member for Thunder Bay-Atikokan, that he is a lazy and no-good minister, I want to make it clear that nobody in this party thinks that the Minister of Finance is lazy.

Mr. Crosbie: Thank you.

• (1250)

Miss Nicholson: Mr. Chairman, I cannot find it in my heart to be terribly sympathetic to the dilemma the Minister of Finance presented to us. His government has been in charge since June. They have been running the country on warrants. Certainly the minister has a tight schedule right now, although I question his priorities when he puts a speech to the Empire Club ahead of his responsibilities in the House of Commons. May I point out to him that if the Prime Minister had elected to call this House earlier he, the Minister of Finance, would have had a more reasonable schedule in which to plan his work.

The Minister of Finance also seems to be complaining because we are re-examining these budget bills. I would point out to him that these are now his bills. Since the bills were not passed by the last Parliament they are now coming back under his auspices. Surely it is our duty to re-examine them from the point of view of how they will be administered and with what intent the new regulations will be written.

I trust that the Minister of Finance was not suggesting that we should simply give blanket approval to all these bills without examining them, not only for actual new clauses but also in terms of the intent of how they will be administered. For the new government to ask us to take everything on trust is something they would have been furious about if we had suggested it in the last Parliament.

Finally, Mr. Chairman, may I congratulate the minister and the Prime Minister on having discovered that parliamentary secretaries can be useful. Earlier, the Prime Minister announced that he would not appoint any parliamentary secretaries as he had not been able to see a use for them. I am glad that conversion has occurred.

Mr. Ritchie (York East): Mr. Chairman, I would like to give a response to a question raised last evening by the hon. member for Broadview-Greenwood when he inquired about the effects of term preferred and income debentures on the banks' effective rate of taxation.

As the hon. member indicated, for the third quarter of 1979 the effective tax rate of the 11 chartered banks computed by expressing the provision for taxes as a percentage of their balance of revenue stood at 10.7 per cent. For the first nine months of 1979, the effective tax rate was 14.6 per cent, which was down from the previous year. Dividend income to the banks on these forms of after tax financing is, of course, not