

*Income Tax*

must give a certain stability to this system so that there will not be any abuses on the part of certain companies to prevent the employees concerned from paying the taxes that they would normally pay.

[English]

**Mr. Stevens:** I guess the minister did not understand the whole purport of my question. I heard what he said about the two years but I am asking why the period of two years should have been chosen. No one is suggesting they should cash them in the day after, but why two years? Why not three, for instance? Have there been any studies which suggest that two years is the appropriate period?

[Translation]

**Mr. Chrétien:** In this case like in others, we had to use our judgment. We decided that a period of two years was reasonable. This was the judgment of officials in my department and it was accepted by my predecessor and myself.

[English]

**Mr. Stevens:** What happens, then, when we face a situation of two years less one day? Suppose an employee gets turfed out, or for some other reason is not in the service of an employer on the date of the expiry of the two-year period?

**Mr. Chrétien:** He would not qualify for the benefit.

**Mr. Stevens:** That is what I presumed. Would the minister tell us why, in the judgment of the civil service, it was not considered desirable to work on a pro rata system whereby, in the case I have mentioned, an employee would get virtually 100 per cent of his benefit—if he were to leave after a year and a half he would receive a corresponding amount, and so on? Can the minister give us the reason for that two year provision without any type of give on a pro rata basis?

● (2102)

[Translation]

**Mr. Chrétien:** Mr. Chairman, we believe it would make the legislation much too complex if we were to apply this benefit on a pro rata basis. We believe that the best way to do this is to proceed clearly and specifically. The employee and the employer will know the conditions applicable to this benefit and will know how to exercise this option of owning shares in the company, that is that an employee must have worked for this company for two years. Why did we make it two years? Because we did not make it three, that is all.

[English]

**Mr. Hamilton (Qu'Appelle-Moose Mountain):** Mr. Chairman, my question is on the wording of the clause. It refers to a Canadian controlled private corporation. What would be the objection to applying the same privilege to, say, a foreign privately controlled corporation?

[Translation]

**Mr. Chrétien:** Mr. Chairman, we decided to give this benefit to Canadian business because we think that this problem is

[Mr. Chrétien.]

generally not encountered among foreign companies which come to Canada. We believe that in general, because of their nature, foreign companies do not need this benefit and we want to give it to Canadian businesses.

[English]

**Mr. Nystrom:** I would like to ask the minister whether or not a limit will be put on this, or is it an open ended proposition where someone who has a lot of money can take advantage of the provision and it becomes a loophole for wealthy people since only one half of the share income is counted as income?

**Mr. Chrétien:** It is applied only to employees, not to anybody who controls the company. We think that is the way to limit possible abuse, because if one person controls the company that person cannot do so in terms of stock options. This provision applies to employees and we think that in view of the nature of corporations which will benefit from it there would be no problem with cutting off the quantitative benefit, if I may use that expression.

**Mr. Nystrom:** I wonder if the minister can clarify that a little more. Who is excluded, just the directors of the corporation or the president? Can the management personnel purchase the share or who does the minister really mean when he speaks of employees?

**Mr. Chrétien:** The provision does not apply either to a controlling shareholder or to a member of the group that controls the company. It has to be at arm's length.

**Mr. Alkenbrack:** I would like to get the definition of the last words which the minister just used. It is found quite frequently in the bill. What is the meaning of this financial legaleese jargon "at arm's length"?

[Translation]

**Mr. Chrétien:** Mr. Chairman, section 251 of the Income Tax Act gives a very detailed definition of this expression "at arm's length" from the legal jargon.

[English]

**Mr. Stevens:** If that is true, and bearing in mind that the minister stated that what was hoped to be achieved was that there be some kind of an inducement to help people whom companies are willing to help, would the minister say why there is no provision for at least some indexing, bearing in mind that since valuation day on December 31, 1971, there has been a 61.4 per cent inflation in this country? If that type of inflation keeps up—and if this government were to stay in power, it would undoubtedly keep up—surely the government would be doing nothing for this person if it deems him to have made a gain on which it is going to tax him 50 per cent if the government does not give him at least an indexing provision to offset the loss of benefit through rising prices which has occurred from the time the option was granted to the time he sells his shares.