

Income Tax

benefit from the use of corporate surplus. Interest on similar loans is brought into the shareholder's income in the United States. It is doubtful that the tax-free status of such loans can be justified. In this regard an article appeared in the *Globe and Mail* on Thursday, November 24, under the headline "Company Loans to Executives Still Rated Good Perks Under Proposed Amendments", and it reads as follows:

While interest-free or low interest loans will no longer be the perfect perk for executives if proposed changes to the Income Tax Act come into effect in 1979, they will still be a good perk, according to Lyman MacInnis of Touche Ross and Co. of Toronto.

Under present law, no interest or low interest on a loan to an employee, for buying a house, for example, is not a taxable benefit.

Under the proposed law an employee would have to pay tax on the difference in interest between a prescribed rate, now set 8 per cent, and the rate on housing loans over \$50,000.

Other interest-free and low-interest loans, with certain exceptions, would record the difference between the prescribed rate and the rate at which the loan was made as a taxable benefit.

There is a deductible of \$500, in total, from the benefit.

He illustrated the proposed law by citing the case of two taxpayers, X and Y, both of whom have to borrow \$50,000.

If X borrows at the bank for 11 per cent, his annual interest cost on the loan is \$5,500 and, if he is in a 50 per cent income tax bracket and cannot deduct the cost of the loan for tax purposes, the effective cost of his interest is \$11,000.

If Y receives a loan of \$50,000 from his employer at no interest, before 1979, he would suffer no tax consequences and be between \$5,500 and \$11,000 better off than X.

The argument against making Y's benefit taxable because it is not from employment is ridiculous, he said.

'Try to negotiate an interest-free loan from anyone other than an employer and find out just how ridiculous that argument really is.'

There is further proof that Y's benefit came from employment, he said. If his employer gave Y \$5,500 to pay the interest on the loan, Y would be fully taxable on the money. After paying the tax on the money he would not have enough to pay the interest unless the loan were fully deductible for tax purposes.

'All of this suggests that Y shouldn't really be too upset if Revenue Canada includes \$3,500 in income as a result of the interest-free loan. At the 50 per cent tax bracket this cost is still only \$1,750, compared to X's \$5,500.'

I am not interested in arguing the difference between X and Y in this example, but even the newspapers indicate that it is unfair. Because of this stupid tax dodge—and certainly the AIB has pointed this out—we allow these extra perks where a person is not paid anything but is given a benefit instead. A man can get a benefit of \$5,500. That is more than some of the people in my area get to live on, yet we give that kind of benefit. All the taxpayers pay for it.

The poor little guy who has to carry a lunch pail, who has to buy clothes for a particular job or who has to have transportation to get to his job, gets a maximum exemption of \$250, but we give the rich people, the fat cats, civil servants, and those making \$50,000, benefits of \$5,500. Why do we do that? It is because they are the ones who draw up the act. They do not draw up the act for my workers or the people in the minister's riding who carry lunch pails. They do it for themselves, the civil servants of this country. Here is a case where the minister could save money if he so wanted. He should cut out those perks. Is the minister arguing that all this is wrong?

Mr. Chrétien: Yes.

[Mr. Peters.]

Mr. Peters: Is the minister arguing that the amendment he is putting in is to cut down some of these advantages?

Mr. Chrétien: Sure.

Mr. Peters: Does the minister agree that there are still quite a number of perks in that section? If he does not, these students are wrong and the financial expert from the *Globe and Mail* is wrong. If the minister is right and all these perks have been cut out, he has a batch of civil servants different from the batch he had a year ago, because that batch put them all in, and I do not think the present batch has taken them all out.

Mr. Chrétien: Mr. Chairman, the purpose of this move is to close a loophole. Prior to this there was no limit on the loans which could be given to someone buying a house. He could borrow interest-free from his company. We are plugging that loophole completely. We had a long debate last week, and the only purpose for which money can be borrowed is for buying a house when moving, and the maximum is \$50,000. Many hon. members opposite said that was really too harsh. I remember many interventions by the hon. member for Churchill, who said that very often people in his area move, and they need that kind of fringe benefit. The hon. member for Churchill was not talking about management. He was talking about blue collar workers who have to move into mining towns.

We are preventing many abuses. Clause 8 will not permit something to be done indirectly which was not permitted directly. Clause 8 will not permit making a loan to a wife. We are trying to make sure that we prevent what could have become a loophole. We are moving in the same direction the hon. member is arguing about, and we are diminishing very substantially the abuse which can take place when money is borrowed interest-free. I do not see why the hon. member argues against that. If he refers to the loans that are permissible when they borrow shares from their company, any loans that are made are deductible from income. My officials inform me there is no abuse in that case.

● (2102)

Mr. Peters: That is not really true, Mr. Chairman, and the minister's officials are not informing him correctly, unless I misread this. It appears to me they have closed the loophole about the relationship of the wife, or have made a substantial step toward that, but where a shareholder or employee borrows money at less than the going interest rate, he is to be taxed on the difference between the prime interest rate and the rate he is being charged. He may be paying no interest or the full prime interest rate, but he will pay tax on the difference between his rate and the prime rate.

Two persons borrowing under identical circumstances may find that on \$50,000 one gets an advantage of \$3,500 because of his taxable income, while the other one has an advantage of \$1,750. To be in the perfect position, taking the same example, a taxpayer would get \$5,500. The students point out that this is taxable in the United States and claim there is no justification for such loans to be tax-free in this country.