

*Income Tax Amendment*

are going to oppose strenuously this approach to income tax legislation which has the effect that, under the guise of plugging a loophole, hitherto legal and proper actions are swept in and made subject to tax penalties. After all, Mr. Speaker, Canadian taxpayers have rights too, or they should have rights. That is the principle that should be followed here.

• (3:40 p.m.)

Legislation may be enacted which has clear and specific effects for the future and taxpayers can study it and be advised as to what they may or may not do, but it is surely not acceptable that taxpayers who have studied existing legislation and taken advice as to what they may or may not do, and have had that advice approved by the minister in the form of registration, should now be told that what was sanctioned by the administration yesterday is improper today, that not only can they not continue to do what they were doing, but they will have to pay a penalty for having done it. I object so strongly to that approach in income tax legislation that I intend to oppose the bill.

Another reason why I oppose the bill is that, if it goes through, as I appreciate it deferred profit sharing plans which are designed to benefit the employees of a company may not be operable in the future except with respect to the larger type of public company. As I understand it, under the legislation or regulations it is intended to provide that these plans cannot be applicable with respect to shares which contain any restriction as to their transferability. In the case of almost every private company, the family type corporation there is a restriction on the transferability of shares. There is a provision which has the effect that if a shareholder wishes to alienate the shares he must first offer them to an existing shareholder at the same price per share as contained in any bona fide offer from outside, and the existing shareholders have the right to exercise that option within a limited period.

That is the nature of a private company. It is incorporated on the basis that a small number of people, having carried on business and being unincorporated, wish to take advantage of the various benefits conferred by corporate structure but they do not want to change the relationship and suddenly find, without notice, some outsider being brought into the corporate enterprise as a shareholder. That is the reason for the restriction on the transferability of shares, and it is a perfectly proper, valid and normal reason. But this is

precisely the type of company that may grow through the enterprise and skill of its managers or owners and eventually employ perhaps 20, 30, 50 or 100 people. It is still a small company. It is desired that those employees will be placed in the position, because of their long and faithful service through which they have established an identity of interest with the company, that when the principal shareholders die, they can, through participation in a profit sharing plan, have an opportunity to acquire ownership of the shares.

This system operates in other ways which represent very direct advantages to Canada. If the employees are not in a position where under a profit sharing plan they have the assets to buy the shares, the shares will probably have to be put on the market and sold to the highest bidder if for no other reason than to meet estate taxes imposed by the federal and provincial governments. It has been the practical experience that all too often in such cases the highest bidder is foreign capital. The profit sharing plan represented a very advantageous means by which Canadian employees were placed in a position where they could acquire these shares on the death of a principal shareholder. Employees who otherwise could not have accumulated the capital required to put them in an ownership position have been able to acquire ownership under this system.

This is surely desirable social progress; we should encourage and assist people to become owners and operators of enterprises. That advantage will be gone under this legislation, and the estate of a principal shareholder will be forced to put the shares on the market in order to pay the succession duties. The shares will be sold and the company will probably come under foreign ownership. That is why it is very important in my view that the benefits and advantages of deferred profit sharing plans, inasmuch as they are to be allowed to continue under the new legislation, should be available to the private corporation as well as the large public company which does not have that kind of restriction on the transferability of its shares.

The other objection I have to the bill concerns clause 21, the "numbers clause". Not only are we invited by this bill to pass retroactive legislation making criminals out of Canadians for having done things which yesterday were perfectly legal but we are invited to join in the process of further reducing