

Income Tax Amendment

"60 days" after the end of the year. That is one point.

The other point I have in mind has to do with subsection 3 of clause 14 on page 15. It says that subsections 1 and 2 of section 79A, as enacted by subsection (1), are applicable to the 1966 and subsequent taxation years. To my mind this is certainly retroactive legislation. I am wondering whether the minister would consider changing "1966" to "1967" so that it will become effective on the first of January, 1967?

Mr. Sharp: Mr. Chairman, may I deal with the first of these points while my officials are thinking about the second. The reason for the difference in time and for the longer period in clauses other than the one under discussion is that in respect of registered supplementary unemployment benefits the payments are not dependent upon income. So there is no need for any time to elapse before payments are made.

Mr. Lewis: Mr. Chairman, may I ask the minister what practical difference would be made by this clause? I do not object to it. It has always been my understanding that before payments into a fund for supplementary unemployment benefits are deductible for income tax purposes approval must be obtained from the Minister of National Revenue and that it cannot be done without such approval. As I understand it, this really would not change anything in practice except to formalize it. Am I right in my understanding?

Mr. Sharp: I do not expect it will make any practical difference. In fact these plans did not have to be approved and we are now bringing them under a process of approval. Now they have to be registered whereas previously that was not the case.

Mr. Lewis: Mr. Chairman, I should like the record to be clear. Perhaps the minister could obtain the information. My experience in respect of one or two cases has been that the employer in negotiations said that before he could agree to such a plan he would have to make certain from the authorities in Ottawa that his payments would be deductible for income tax purposes. He may have done this informally by verbal conversation or through informal letters, but it always has been my impression that he had to obtain such approval.

Mr. Sharp: My information is that it would of course be prudent for a taxpayer to do

[Mr. Ballard.]

that. In fact there were no formal requirements for the registration of supplementary unemployment benefit plans.

Clause agreed to.

On clause 15—*Profit sharing plan.*

Mr. Fulton: Mr. Chairman, first of all I should like to ask the minister whether I am correct in my understanding that from now on a deferred profit sharing plan will not be approved if the arrangements thereunder consist primarily of the use of payments into the plan to pay the premiums on insurance policies on the life of the principal shareholder or shareholders, with a further provision that on the death of that shareholder the proceeds of the insurance policy will be applied by the trustee toward the purchase of the shares of that shareholder and their distribution among the employees who are the beneficiaries under the plan.

I understand from my reading of the act and from discussion with persons who have made a study of this field that insurance in respect of this type of profit sharing plan will no longer be approved in that the insurance policy will not be a qualifying investment and will be so characterized. I am wondering whether I am right in this, and if so on what reasoning this decision is based.

Mr. Sharp: Mr. Chairman, the reason I am a little uncertain in replying is that I think most of these provisions come up in clause 19 rather than in clause 15. I hope I do not have to repeat the explanation later.

Mr. Fulton: I understand that clause 19 primarily contains what I might call divesting provisions which require plans that will no longer be approved, although they have been approved in the past, to divest themselves of certain of their assets. Certainly it is my impression of clause 15 that it lays down the new specifications in respect of what can be done under approved plans.

• (6:10 p.m.)

Mr. Sharp: Let me direct the hon. gentleman's attention to pages 21 and 22 of the bill and the new section 105K (6) (a). There are references to the acquisition of an interest in or the payment of an amount under a life insurance policy and the disposition of the interest. At page 22 the rules in respect of insurance policy investments are laid down. That might be the more appropriate clause under which we should discuss this subject.