

Income Tax Act

INCOME TAX ACT

Resolved, that it is expedient to introduce a measure to amend the Income Tax Act to make provision in respect of a new class of profit sharing plans under which

(a) amounts allocated by the trustee shall not be included in the income of an individual who is a beneficiary under the plan until the year in which they are received,

(b) no tax shall be payable by the trustee under the plan on the taxable income of the trust,

(c) an employer may deduct in computing income for the year an amount which when added to his contribution, if any, under a registered pension fund or plan does not exceed \$1,500 per employee.

Mr. Benidickson: Mr. Chairman, I take it that the minister is dealing with the first resolution with respect to income tax. This is a new concept. Perhaps the minister would see fit to enlarge upon his comments made on budget night, particularly as he indicated that this house this session is not going to be asked to do more than to receive the bill at first reading. Our debate on the bill at this session will conclude at that stage.

I recognize that for certain types of profit sharing plans we will be completely reversing the stage at which we impose an income tax. It seems to me it would be appropriate for the minister to outline his expectations and plans at this stage. I realize he is following a precedent that we have had in the past with respect to the Estate Tax Act which we were discussing and also some years ago with respect to the Income Tax Act—I think it is a good practice—whereby a bill is introduced and those who are specialists in the field then have the opportunity between sessions to examine the intent of the minister. The minister also graciously indicates that he is prepared to receive comments, criticisms and recommendations in the interim before he really asks his colleagues in the House of Commons to accept any radical change in taxation methods.

Mr. Fleming (Eglinton): Yes, Mr. Chairman, I would be pleased to say something about the purpose of this resolution. As I indicated in the budget speech on March 31, it is our intention at the present session to introduce a separate bill to amend the Income Tax Act in respect of profit sharing plans and to carry that bill no further than first reading at the present session. Then between now and the 1961 session full opportunity will be afforded to hon. members, to persons interested in this subject and to the professional groups, lawyers, accountants and any others who may be interested, to study the measure and to assist us with their views.

This is proposed partly because this will be quite a new departure in the Income Tax Act and partly because this is a highly complex subject. It has been considered by the

Department of Finance for some years. It was considered before I became minister and my colleagues and I have had the problem under study for nearly three years since the present government came into office. I stress, Mr. Chairman, that what we are doing tonight is simply asking the house to give approval to the introduction of a separate bill for this purpose. The provisions will not appear in the bill to amend the Income Tax Act which will be introduced following approval of the second resolution under the Income Tax Act. In other words, this year we have two resolutions respecting the Income Tax Act. The second is the ordinary one with the detailed provisions which will be followed by the introduction of a bill to be carried through all stages with a view to coming into effect by enactment at this session. The first resolution will lead to the introduction of a separate bill and that bill will not be carried beyond first reading at this session.

Without trying to make this subject look too complex for this purpose because it is, as I have indicated, a very highly complicated matter, and without asking the house to spend a lot of time on this abstruse subject in view of the fact that it will be exposed for further study and there will be ample opportunity at the 1961 session to consider it as fully as the house may wish, let me give a general explanation of the purport of the proposed provision.

This resolution proposes that legislation be introduced to provide a new code of rules for taxing profit sharing plans. The existing legislation in respect of such plans will not be disturbed but the way will be opened for a new class of profit sharing plans. The main change in the tax treatment of plans coming under the proposed new legislation will be that employees will not be required to pay income tax on the amounts allocated to them each year under a plan if these amounts are held by a trustee and accumulated. The tax on these amounts will be deferred until the amounts are actually received by the employee.

Profit sharing plans take many forms but they can be divided roughly into two groups. There are what might be called the cash plans and what might be called the deferred plans. Under the cash plans, of course, the employer pays a bonus or makes cash distributions to his employees related to profits made in the year in question. This payment made in cash to the employees is the same as other remuneration for tax purposes and, of course, no tax complication or problem arises. Under the deferred plans the employer also makes an allocation of profits to his employees but instead of paying it to the

[Mr. Fleming (Eglinton).]