

Income Tax

private company and not a public company. To keep it with no limit was felt to be exceedingly generous.

● (2042)

Mr. Stevens: What happens to the person who is not being relocated? I am referring to a person who lives within that 25 miles. I take it from this section that he will not be exempt?

Mr. Chrétien: Not for buying a new house with an interest free loan of \$50,000.

Mr. Stevens: Does the minister not feel that this may be a problem which smaller businessmen will have to live with, in that with the resources of large corporations they can very quickly woo away employees from smaller concerns? Let us assume there is an employee who has a relatively low interest rate loan at the present time, which is one of the advantages he has with his small business employer. Does the minister now intend to have that man taxed on the deemed benefit which will come if this clause and the other relevant clauses in Bill C-11 are passed?

Mr. Chrétien: If he is in the same city, he cannot benefit from this allocation in terms of interest free loans for a house. It would not apply to him. There are other provisions which would help in this bill. If small or medium sized corporations want to attract an employee, they could provide incentive in terms of employee stock options.

Mr. Stevens: This clause will mean people who have been working with smaller companies, who are not being relocated and who have had the advantage of low interest loans, will now lose that advantage. Bearing that in mind, has the minister given any thought to what the salary implication will be if the employer attempts somehow to compensate the employee for the fact that he will have to pay tax on what has been determined by the minister to be income, in the sense that he will have to make up whatever that deemed amount is by a multiple of the tax he will have to pay to the federal treasury? Has the minister given any thought as to what the impact of this will be?

Mr. Chrétien: This is not starting before 1979. If some people receive interest free loans after 1979, they will be required to pay tax on the benefit they are deriving from those loans. That was a benefit which was not taxable, and it should be considered as income, just like an increase in pay. Of course employers will have to give pay increases. If employees receive pay increases, they will be required to pay taxes accordingly. It was a mechanism many people used to avoid paying taxes, and it was not fair for other taxpayers in the land. I have no difficulty in living with that change. It has developed as a loophole which has to be closed.

Mr. Stevens: I have no doubt the minister will have no difficulty living with this change. In this House we are concerned about hundreds and perhaps thousands of Canadians who will find it considerably difficult to live with the proposed change.

[Mr. Chrétien.]

Bearing in mind that the \$50,000 exemption would be open to employees working for smaller companies, if it was not for the words "on the relocation of an employee", would the minister indicate why it is so essential that this \$50,000 be only an exemption on relocation, as opposed to those who would be otherwise entitled to such a lower interest loan?

Mr. Chrétien: We have decided to make it in terms of relocation because of a decision by the Department of National Revenue indicating that a lot of people were abusing that loophole which existed. Any sum of money could have been lent by a corporation to an employee and the benefit from the interest free loan was not taxable. Certainly there were abuses there. When National Revenue discovered that practice and judged that it was not acceptable, we received a lot of representations by corporations on the ground that it would affect mostly people who were forced to move. The determination of the \$50,000 was discussed with the mining industry. That industry felt it was a reasonable level. Interest free loans by corporations under certain circumstances will be acceptable under clause 35. It is up to a real benefit of \$500 in terms of not having to pay interest.

Mr. Stevens: Since the last time I had an opportunity to question the minister, I have gone through the figures he provided with respect to calculating the interest a man may be deemed to have earned as a result of this low interest loan. I have read clause 35 as it relates to clause 2. I am not sure whether I understood the minister accurately. Do I understand him to say that notwithstanding how many loans an individual may receive from his employer, he may take the \$50,000 and get a zero rate of interest on that, and on another \$50,000 get a 10 per cent rate of interest? The average rate would be 5 per cent, and if the prime rate is maintained at around 9 per cent, no tax would be payable.

Mr. Chrétien: That is exactly what could happen, yes. If the calculations and the figures of the hon. member are used, that will be the situation. Other than that \$50,000 interest free, he could have \$100,000 at 4.5 per cent if the prime rate is 9 per cent.

Mr. Stevens: In order to keep my figures as simple as possible, assuming the prime rate is 9 per cent and assuming a man receives two loans, the first one at zero per cent for \$50,000 and the second \$50,000 at 10 per cent, giving him an over-all 5 per cent rate, do I understand the minister correctly that in spite of the fact the prime rate may be 9 per cent, which would appear to be a 4 per cent deemed difference, there would still be no tax payable?

Mr. Chrétien: He would have to pay tax on 1 per cent of the totality of the interest because it is 9 per cent and 10 per cent. He can have a \$50,000 interest free loan. He can have the double of that amount at half the rate. If the rate is 9 per cent, it will be 4.5 per cent. If he has anything above that, he will have to pay tax on that benefit.