

and the poor little thing is now mutilated and has no feathers, because all that is left for a full year is that the reduction will be the lesser of 20 per cent or \$20. The only area in which any benefit would come from that would be in the area below \$1,600-odd of taxable income.

Having said that, I should point out to you that the reduction, in what I call the Gordon formula of last year—that is, the lesser of 10 per cent or \$600—lessened the revenues of the Crown by about \$325 million if applied to a full year. It is estimated that when this new formula is applied to a full year the revenues will be lessened by about \$210 million. Of course, there is a special formula for the year 1966-67. You will see it in the bill and as it is very simple to follow I will not spend any time on it.

I want to talk for a moment about the provision for a "no withholding tax" on certain classifications of bonds, effective since April 15 of this year. This will be found on pages 19 and 20. There you will see the classification of bonds and securities in regard to which, on and after April 15, 1966, there will be no withholding tax leviable against payments of interest to non-residents.

The situation that results from this is that you have a whole series of securities comprising different categories. Prior to December 20, 1960, there was no withholding tax on federal bonds when they were held by non-residents. On provincial bonds the tax was 5 per cent, and on municipal bonds it was 15 per cent. In the period starting December 20, 1960, the levy was made a straight 15 per cent on all these categories of bonds.

Now you come to another period and you have three categories: pre-December 20, 1960; pre-April 15, 1966; and after April 15, 1966. Of course, whatever taxes were payable in relation to bonds, municipal and provincial, prior to December 20, 1960, carries on. As to whatever withholding tax was payable on these bonds when issued to non-residents, in the period December 20, 1960, to April 15, 1966, that carries on. It is in the area on and after April 15, 1966, that the benefit arises of what you might call "tax-free interest," although more properly it should be described as "no withholding tax" because it is only the non-residents who get the benefit of it.

I should like to speak for a moment about stock options.

Hon. Mr. McCutcheon: Hear, hear.

Hon. Mr. Hayden: You will find stock options dealt with in clause 9 on page 12 of the bill. It amends to some extent section 85A of the Income Tax Act. May I tell you what the present formula is and then tell you what has been changed. The present formula is this: If a company grants a stock option on some of its shares to an employee, and it is for a period of time, and as and when the employee exercises that stock option the market price of the shares is higher than the price at which he may exercise the option, in those circumstances the difference is called "a benefit" and in the Income Tax Act presently there is a special way of taxing that benefit. They do it by taking the aggregate of the income taxes payable by that employee for the three years immediately preceding the taxation year in which he achieved his benefit. Then they take the aggregate of his income in those years—and note I say advisedly, "the aggregate of his income", not "taxable income." From that they arrive at an average rate of tax.

If we assume that is 25 per cent, then under the law as it presently stands you might deduct 20 per cent of that. So, that man's special taxes would be in the order of 5 per cent in those circumstances.

I have worked out an example, which I might give to you. Under the present law, for instance, if the benefit were \$10,000 and the average rate was 25 per cent, the tax would be \$2,500.

Hon. Mr. McCutcheon: On what amount?

Hon. Mr. Hayden: On \$10,000. But then I am entitled to deduct 20 per cent which is \$2,000, and I end up with a tax of \$500 on the illustration I have given.

If I apply the same illustration to the law in this bill, we start with a benefit of \$10,000, and then we have an average rate of tax at 25 per cent. That would produce tax at \$2,500, but instead of being able to deduct 20 per cent, under the new bill we are entitled to deduct the lesser of 20 per cent or \$200. If we deduct \$200 under the new law, the person with the benefit of \$10,000 would pay tax of \$2,300. Under the law at the present time the tax would be \$500. So, financially there is a considerable difference.

I think this is something we should inquire into in committee so that we may find out the circumstances that led to the change. I say this because the design of the stock option