

The Chairman: Does clause 65 carry?

Hon. Senators: Carried.

The Chairman: We will go to clause 66.

Mr. Cohen: This is one of the provisions pertaining to life insurance.

The Chairman: Yes, I remember this. Does clause 66 carry?

Hon. Senators: Carried.

The Chairman: We now come to clause 67.

Mr. Cohen: The remarks with respect to clause 66 apply to clause 67.

The Chairman: Does clause 67 carry?

Hon. Senators: Carried.

The Chairman: We should know them by now. Next is clause 68.

Mr. Cohen: Clause 68 implements changes in the withholding tax. The most important one is the provision which permits the minister to excuse from the withholding tax in hardship situations.

The Chairman: Are these the so-called hardship cases?

Mr. Cohen: Yes, sir. It also picks up the problem which I believe was of interest to this committee with respect to the exempt institutions, specifically teachers' insurance fund.

Senator Benidickson: What is this business about films?

Mr. Cohen: Subsection 212(5) of the statute imposes a withholding tax on motion picture film royalties paid to non-residents. The amendment ensures that the tax only applies to royalties to the extent that the films have been or are to be used or reproduced in Canada. As previously drafted, we might have imposed a withholding tax on films having nothing to do with Canada, which was never intended.

The Chairman: Shall clause 68 carry?

Hon. Senators: Carried.

The Chairman: Clause 69 is the French version. Is clause 69 carried?

Senator Benidickson: Clause 69 is not all French; are there any other items?

The Chairman: yes, on the next page. What is the effect of these provisions on page 112, Mr. Cohen?

Mr. Cohen: Which ones?

Senator Benidickson: Subclause (2), for instance.

The Chairman: The definition of exempt income in section 248(1). It is repealed, and then they go on to make another definition.

Mr. Cohen: When the Income Tax Act was introduced in 1972, the exempt income was defined as not including dividend, so that any interest expenses which was related to the earning of that dividend would be deductible. The

definition of exempt income is being amended to make it clear that certain tax avoidance schemes cannot be carried out by relying upon the fact that dividend is not exempt income.

Senator Benidickson: This is closing a loophole?

The Chairman: Does clause 69 carry?

Hon. Senators: Carried.

The Chairman: That carries us through to Part II, which takes us to to page 114. The rest of the bill deals with Income Tax Application Rules.

Mr. Cohen: That is correct, except for the very last clause. Clause 92 deals with another statute altogether; it is a technical change. Down to clause 91 it deals with what we call ITAR.

The Chairman: Between pages 114 and page 140, what is there about these rules? They involve changes in the rules which were part of C-259 that was enacted at the time.

Senator Benidickson: Circulated by the Department of National Revenue.

Mr. Cohen: The ITAR stands for Income Tax Application Rules. They are a body of rules in the statute and were a separate part of Bill C-259. They are transitional rules.

Senator Lang: Why did they not call them transitional rules?

The Chairman: That is what they are. When Bill C-259 was being discussed here we talked about them as being transitional.

Mr. Cohen: I admit that is the way I describe them.

The Chairman: In the changes which have been made here, should our attention be directed to any particular one?

Mr. Cohen: I would have to turn the pages to tell you. The ITAR are very important. They contain, for example, the neutral zone, because that is a transitional problem.

Senator Benidickson: When you say "transitional", Bill C-259 really created a new basic Income Tax Act. These rules were necessary because of the difference in the end of the fiscal year.

Mr. Cohen: Essentially, the problem was how to get people from the old system to the new one. That is a transitional problem. We needed a whole body of rules which would get people from the old system to the new system as generously and sensibly as possible. The reason they are not part of the Income Tax Act, *per se*, is because that in time they will cease to be of any consequence. Most of them pertain, for example, to property which you owned on January 1, 1972. If you went out tomorrow and bought a piece of property, fresh, then the rules would have no application to you and gradually they will cease to apply to anyone. It may take a long time, but gradually that will happen. Perhaps the most important ITA rule, to which I referred earlier, is the neutral zone. That is the rule that says that for purposes of capital gains taxation you can choose to be taxed on the higher of what you paid and what it was worth on Valuation Day. Eventually