

## INTEREST EXPENSE

**DEFERRED INCOME PLANS** As announced, interest on money borrowed to make contributions to certain deferred income plans is no longer deductible. A deduction is denied where funds are borrowed to purchase an Income-Averaging Annuity Contract, or contribute to a Registered Retirement Savings Plan, Registered Pension Plan or Deferred Profit Sharing Plan. The new rules will apply for contributions made after November 12, 1981, unless in the case of an IAAC or past pension service contributions, a written agreement was entered into on or before that date. The provision does not apply to contributions made by an employer. The draft legislation does not cover interest on pre-Budget loans to invest in deferred income plans. As taxpayers were previously allowed to deduct such interest, it is presumed that this treatment will continue for pre-Budget loans, subject, of course, to the eventual restricted interest rules.

**EMPLOYEE STOCK PURCHASE PLANS** A deduction, as interest expense, is to be allowed after 1981 for any benefit deemed to arise from a stock purchase loan from an employer. The deduction will apply where a loan is granted to purchase shares in the employer or a related corporation.

**RESTRICTED INTEREST** The Budget Resolution that proposed to generally limit a taxpayer's deduction of interest expense to the extent of income from property, has been referred to a committee of tax professionals for study. The restrictions will not, in any event, apply before 1983. Furthermore, it has been made clear that interest on commitments for employee share purchase loans prior to November 13, 1981 would be grandfathered, and that any restrictions on corporations would only apply to private corporations that carry on either a personal service or a professional business.

As originally proposed, interest on funds borrowed by an individual, partnership, or corporation to acquire property as an investment would be deductible only against income from property. Interest which was not deductible due to the income limitation was to be carried forward for deduction in a subsequent year. At the taxpayer's option, the restricted interest could be treated as a capital loss. Exceptions were to have been provided in respect of interest expense incurred for:

- investments in Taxable Canadian Corporations, up to a maximum deduction of \$10,000;
- private company equity investments by a significant shareholder or employee; and
- first purchases of MURB's, and pre-Budget acquisitions of residential rental real estate.

It is difficult to forecast what the outcome of the committee study will be. It appears, unfortunately, that the second look arises more from the complexity of the proposals than from their inappropriate economic effect, although one may hope that the latter will carry some weight.

J. D. Craig