

The Hon. the Speaker: With leave of the Senate, it is moved by the honourable Senator Connolly (Ottawa West), seconded by the honourable Senator Leonard, that this bill be now read the third time.

In amendment, it is moved by the honourable Senator McCutcheon, seconded by the honourable Senator Macdonald (Cape Breton), that this bill be not now read the third time, but that it be amended as follows:

Strike out clause 9.

Honourable senators, is it your pleasure to adopt the motion in amendment?

Some Hon. Senators: Agreed.

Hon. A. K. Hugessen: Honourable senators, I listened with a great deal of interest to my honourable friend Senator McCutcheon yesterday evening, and again this afternoon, on this question of stock options. I hope he will forgive me for saying that I think he has not got to the basic principle of the matter in any way, shape or form.

What is a stock option? It is a right which a company gives to its senior executives to acquire, within a certain period, a certain number of shares at a favourable price.

Say a man gets an option to acquire a thousand shares of his company at a price of \$20 per share within five years. On the same assumption, let us say the company does well, that the stock market is favourable and that at a certain period within those five years the stock is selling at \$50 a share. Then it obviously becomes in the interests of the holder of the stock option to exercise his option and to acquire for \$20 a share what is selling in the public market at \$50. In other words, he gets \$30,000.

Hon. Mr. McCutcheon: What is the vice in that, senator?

Hon. Mr. Hugessen: I did not interrupt my honourable friend.

Hon. Mr. McCutcheon: Sorry.

Hon. Mr. Hugessen: That, to my mind, is just as much of a wage or compensation for the man's activities as an officer of the company as any other kind of salary. For myself, I see no reason in the world why that benefit should not be taxed as salary—as, indeed, all other benefits are.

My honourable friend talked about inequity. Well, where is the inequity? Here you have hundreds of thousands of people earning salaries throughout the country, paying full

income tax on their salary, and one man, who happens to have the advantage of a stock option and makes a profit on it, paying much less than that on the profit that he has made as a result of exercising his stock option.

That, I think, is unfair. The effect of this bill is to reduce to some extent, although by no manner of means entirely, the advantage that the man with the stock option has, as a result of his holding the stock option. That, to my mind, is the basis of the thing. This is part of that man's salary, and as part of his salary it should be taxed.

I am not interested in people who say they want to get important American associates to come up here to manage Canadian companies, and they cannot do that without offering them inducements of this kind. In my opinion, if a man earns a salary as a senior officer of a company, then he should pay his proper proportion of the taxes due by him and which are used for the carrying on of the business of the country.

That, to my mind, is the basic principle behind this thing. I support it in every way, and I certainly intend to oppose my honourable friend's amendment.

Hon. T. D'Arcy Leonard: Honourable senators, I should like to say a word or two in support of what Senator Hugessen has said. I listened to the minister this morning, and I am satisfied, after hearing him, that this provision dealing with stock options in the Income Tax Act is fair.

I should like to point out something that has not been mentioned before, namely, that existing stock options are not affected. This new legislation will apply to stock option agreements that were entered into after the budget announcement was made. The only change in so far as previous stock option agreements are concerned is that the option must be exercised by January 1, 1968.

The reason given by the minister, and emphasized by Senator Hugessen, was that the previous treatment of stock option agreements was too generous. While Senator McCutcheon indicated that there had been no public representations in this regard, the minister did say that people had called to his attention the fact that there was a discrimination in treatment between the manager, executive or senior employee of a company that did not have a stock option plan and those employees of companies that did have stock option plans. That, in the minister's view, was discrimination. He said also there was a case for treating the different kinds of