

Income Tax Amendment

that is at stake here—then of course there would be no tax penalty.

May I say to the hon. gentleman that one can conceive of a situation where a company is not really establishing a profit sharing plan, its purpose being to get access to funds tax free. It establishes a profit sharing plan with a number of employees who are also shareholders and it pays certain sums into that plan. It has tame trustees. It then invests in the shares of a company, which in turn buys the bonds of the company that has established the profit sharing plan, and in the end the company that has established the profit sharing plan never pays the bonds. All that has happened is that the company has had the use of tax free funds without any benefit to anyone except the company itself and its shareholders, with a resulting loss to the treasury.

I do not see how such a situation can be dealt with unless there is a requirement that the company change its investments. The legislation may be retroactive, it may change, it may require that the company change its practices, but I do not believe that parliament is really doing anything improper when it requires such a company to divest itself of such shares and invest for the purpose of benefiting the employees.

I regret to say that the ingenuity of the taxpayer is such that plans such as I have outlined are possible. This legislation was first enacted for well-intentioned reasons, I am sure that my predecessor, Mr. Fleming, was persuaded that it was in the public interest to encourage profit sharing plans, and I believe that in his position I would have done the same thing. I would probably not have had the imagination to foresee the ways in which the purposes of these worthy plans could be perverted, but in fact they have been, and now it is necessary to enact legislation which requires that the plans be used for the purpose for which they were intended.

The method used to do this is not extraordinary, it is just a requirement to change the practices that I think we would all agree are not in the public interest.

Mr. More: Mr. Chairman, I understand we are on clause 15. I should like to ask the minister why an amount not greater than \$1,500 has now been changed to \$1,500 or 20 per cent of the salary or wages. I am aware of the fact that the company would have taken in the employees regardless of their salary scale on the basis of \$1,500. It seems to me that this would have been of benefit to the lower paid employees who were getting paid

[Mr. Sharp.]

for their job on a scale equal to that paid for similar jobs elsewhere, and they would not be discriminated against in the salary they were receiving. But certainly we have heard a lot about the average income of people in Canada and we know that every employee of the company does not receive at least \$7,500 a year. It seems to me that if this 20 per cent maximum were not imposed under this legislation the legitimate proposals and plans would benefit the lower income employees.

Mr. Sharp: The explanation is that an employer may no longer deduct \$1,500 in respect of contributions of employees such as relatives to whom he pays only a small salary. The present provisions were being abused and it was felt that there should be some relationship between the income or the salary being paid and the amounts contributed to the profit sharing plans. I shall have an amendment to propose which may go some distance to meet the legitimate concern of the hon. member for Regina City.

Mr. More: Does the minister have an amendment to clause 15 and does he intend to move it now?

Mr. Sharp: I will be very happy to move the amendment at this time. It appears in the *Votes and Proceedings* for last night. I will ask my colleague, the Postmaster General, to move the amendment, which reads as follows:

That clause 15 of Bill C-259 be amended

(a) by striking out line 25 on page 16 and substituting therefor the following:

becomes, before that time, a person who is not an employee of any;

(b) by striking out lines 36 and 37 on page 16 and substituting therefor the following:

to his estate, not later than 90 days after the earliest of;

(c) by striking out subclause (4) on page 17 and substituting therefor the following:

(4) All that portion of subsection (7) of section 79c of the said Act preceding paragraph (a) thereof is repealed and the following substituted therefor:

Amount of employer's contribution deductible " (7) There may be deducted in computing the income of an employer for a taxation year the aggregate of each amount paid by the employer in the year or within 120 days after the end of the year, to a trustee under a deferred profit sharing plan for the benefit of employees of the employer who are beneficiaries under the plan, not exceeding, however, in respect of each individual employee in respect of whom the amounts so paid by the employer were paid by him, an amount equal to the least of"

(5) Subsection (7) of section 79c of the said Act is further amended by striking out the word "or" at the end of paragraph (a) thereof, by adding