

Home Purchase Loans The most complicated area of deemed benefit is housing loans. Beginning in 1982 the "home purchase loan" concept is introduced. These are loans received (or debt incurred) by a current or future employee or a shareholder to acquire a home or to repay a loan or other debt used to acquire a home, provided the individual or his family inhabits the property. The major change is dropping the requirement that the home be acquired during the course of a move. All "home purchase loans" result in a taxable benefit if interest paid in the year or within 30 days thereafter is less than interest at prescribed rates at the time the debt was incurred. For loans agreed to in writing prior to November 13, 1981, a transitional provision exempts the benefit on \$40,000 of principal in 1982 and \$20,000 in 1983. The benefit will be reduced if the prescribed rate is less than that in effect when the loan was received. "Home purchase loans" with a term greater than five years from the time the loan was received will be deemed to be new loans renegotiated at the end of each five years. At that anniversary, the existing prescribed rate will be the guideline in determining the taxable benefit for the next five years. It appears that the 5-year rule also applies in retrospect; for example, a 1972 loan is deemed to have been renegotiated in 1977 and again in 1982. It is interesting to note that while no benefit is to be imputed on non-housing loans where the interest is set at market rates, there is no 5-year deemed renegotiation rule with the result that no benefit can be ascribed regardless of how long the loan is outstanding.

Share Purchase Loans "Excluded loans", those to purchase an employer's shares, are gone; however, any deemed benefit will be allowed as deductible interest expense provided the loan is made to employees, persons about to become employees, Personal Services Corporations and persons related to any of these. It appears that shareholders, although they are also taxable on the imputed benefit from a low-interest loan to purchase shares, may not treat the benefit as a deductible expense. To the extent that the restricted interest concept is subsequently introduced, it will not apply to interest under commitments prior to November 12, 1981 relating to employee share purchase loans. This is good news.

RETIRING ALLOWANCES The concept of a retiring allowance is to be expanded and now seems to include what was formerly a termination payment. This latter concept is repealed. The distinction between the two was certainly blurred and, with the November decision to tax 100% of termination payments, presumably became unnecessary. Both these changes are effective for terminations after November 12, 1981. The pre-November 1981 Budget rules still apply to any terminations of office or employment occurring before November 13, 1981. As announced in December, the legislation will provide a limit on the rollover of a retiring allowance to an RRSP or a Registered Pension Plan to the extent of \$2,000 for each year of service, plus an extra \$1,500 for each year while not a member of the employer's (or his predecessor's) pension plan or Deferred Profit Sharing Plan and each year when a member but for which no employer contributions vested. Non-residents will also be allowed this rollover treatment provided the funds are transferred directly from the employer to the RRSP or RPP.

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