[*Translation*]

The Chairman: When the committee rose at six o'clock, clause 6 as amended was under consideration.

Mr. Chrétien: Mr. Chairman, the problem under consideration was this: By virtue of special provisions in the act, multinational insurance companies employed certain benefits which their Canadian counterparts did not, more specifically in the way their revenue income was computed, some investments located in foreign lands were deducted from income made in Canada; thus they were, or could be placed in a more favourable situation than Canadian companies without operations abroad. That is why clause 6(11) was suggested in committee: it placed Canadian insurers on the same footing as multinational insurance companies. We reached that decision as a result of the many representations made to us by Canadian life insurers. If hon. members want me to give them a highly technical explanation, I have here a four-page text I can read to them, unless they feel that the explanation I have just given them in laymen's terms is adequate.

Mr. Clermont: Mr. Chairman, I would like to get some information on that clause. The minister changed the recommendations contained in the budget of March 31, 1977, and in his intervention on October 20, 1977, he mentioned that with respect to capital gains, the difference between the premiums paid and the surrender value would no longer be considered as a gain of income but the matter of the interest on loans was not taken out. With the recommended amendments is the person borrowing on his insurance paying interest to create income? Can that person consider the interest paid on his loan from the insurance company as an expense and reduce his income by that amount when he prepared his tax return for, let us say, the year 1977?

Mr. Chrétien: Mr. Chairman, the question asked by the hon. member is valid but I intend to deal with it later under clause 14. It is indeed my intention to consider the interest paid by an insured to his insurer when he receives part of his capital—what used to be called a loan on the insurance policy—as deductible. That would not really be called interest but a premium for the privilege of having part of his capital available immediately. Those amendments will be dealt with later in the debate under clause 14. We are now considering clause 6(11) dealing with an entirely different problem—the problem of insurance.

Mr. Clermont: Mr. Chairman, I put the question to the minister because I wonder at times if we are really going to get to clause 14.

Mr. Chrétien: I hope, Mr. Chairman, that we will be able to get to clause 14, and I am quite pleased that the hon. member anticipated the debate. That is why if the explanation I gave earlier on clause 6(11) is satisfactory to the hon. member for York-Simcoe (Mr. Stevens) then we will be able to pass that clause and move to clause 14 as quickly as possible.

● (2012)

[*English*]

Mr. Stevens: The minister has given us a synopsis of what we understand to be the effect of paragraph 11 of subclause 6. He did refer to a more technical, four-page description of what is happening under this paragraph. I think that very often the explanation of the reason for putting in amendments is forgotten. I wonder, therefore, whether we might take those four pages of technical comment as read, with a view to having the benefit of the *Hansard* record tomorrow. We would then have the advantage of a more technical description of what is proposed, and then be able to move on.

Mr. Chrétien: I have no objection to this more complete explanation being on the record, but I should also like to dispose of the clause as soon as possible. If there is no objection, I will read the description to which the hon. member has referred. I can understand that it may be painful for some people to listen to me while I am reading a technical text, but it might be good practice. That might be the better way, because I want to make progress.

This important addition to the act is one of the measures to eliminate the unwarranted tax advantages gained by some multinational insurers who benefited from certain defects in the act before 1976. It applies to those companies which were on the branch election basis for the purpose of determining their investment revenue. By exploiting these deficiences some insurers obtained a major advantage over other insurers such as purely domestic companies, multinationals which were on the branch election basis but did not take advantage of the deficiencies and other multinationals which used the alternative method—the "proportional basis"—of determining investment revenue.

The branch election basis permitted the insurer to designate as having been held in the Canadian corporation's insurance business any of its property, subject only to the requirement that the value thereof had an aggregate value of not less than its Canadian insurance liabilities. For tax purposes, only the income from such designated property was included in the insurer's income. The deficiencies in the branch election basis, when exploited, presented the opportunity for significant tax avoidance. The deficiencies permitted the artificial reduction of investment revenues wherever the company

—selected cash and other assets—such as accounts receivable—that did not produce any revenue or that yielded a low return, or

—selected assets that were held for only a short period of time during the year and therefore produced very little investment revenue.

By using these deficiencies those insurers on the branch election basis could reduce gross income and thereby show a loss for tax purposes or, in the more typical situation, claim less than the maximum amount deductible as a reserve or as capital cost allowance. In either event the result was that the insurer in subsequent years had a backlog of unclaimed deduc-