

Income Tax

believe the Minister of Finance gave clarifications in that respect. That is why I wanted to put the question directly to the Minister of Finance to correct the impression that might have been left by him or myself—myself in my questions and him in his answer.

Mr. Chrétien: Mr. Chairman, if the premiums paid by the insured exceed the amount of the loan, then no part of the loan can be considered as income. If, for example, it is less, it may be that part of the loan could be considered as income but in the case of small policies, as was explained this afternoon, 99 per cent are not covered. This is mainly to cover the case of single premium policies.

As I explained this afternoon, if someone had purchased a \$100,000 insurance policy against payment of a single premium twelve years ago, his insurance policy would be worth \$200,000 today, and he could borrow \$200,000, so that there is an increase of \$100,000 on which he would have paid no tax, and the only thing he would have to do to keep his insurance in force is to pay the interest. This could become a sort of loophole which he could use to circumvent the income tax legislation and we know people have used it as such in the past. That is what we want to prevent.

However, in the cases of most normal policies, people can rarely borrow less than the total value of their premiums.

Mr. Clermont: Mr. Chairman, while trying to catch 1 per cent of the people who borrow money on their insurance policies, is not the government overburdening the administration of insurance companies?

Mr. Chrétien: I do not think so, Mr. Chairman,

[*English*]

Mr. Stevens: Mr. Chairman, in response to the hon. member for Timiskaming I understood the Minister of Finance to say that the 3 per cent allowance which a company might receive on its inventory at the beginning of the year is something it would not be entitled to unless the money was invested. I am quite sure that is what the minister indicated. I know it is wrong, but I think the record should be corrected.

Mr. Chrétien: Mr. Chairman, I do not know whether I indicated that or not. If I did, it was inadvertently. The allowance relates to inventory and not investment.

Mr. Stevens: The minister was using INCO as an example at that time. He said INCO could not invest money in other countries because it would not be entitled to this type of allowance.

Mr. Chrétien: Mr. Chairman, I was referring to the investment tax credit at that time, and not only the inventory allowance. I was trying to deal with the totality of the arguments by the New Democratic Party on that issue. I was attempting to segregate that from capital cost allowance.

Members of the NDP party claim that it is a rip-off and there is no benefit from it.

Mr. Stevens: When the previous minister of finance brought in the 3 per cent allowance with respect to inventory, he indicated that he was awaiting an acceptable inflation accounting system. Can the minister bring us up to date? I think most chartered accountants are familiar with this. They feel it is a lame duck, stop gap affair. What progress has the department made in getting an acceptable inflation accounting system with which businesses can live?

Mr. Chrétien: Mr. Chairman, I am informed that this is a very difficult technical problem. Work is ongoing in the department with respect to this, particularly with the Canadian Institute of Chartered Accountants. The department is endeavouring to develop a proper mechanism to alleviate the problems created by inflation in terms of holding inventory. I hope the department, in association with the institute, can arrive at a solution in order for us to move on it.

Mr. Stevens: When this scheme was first announced, the estimated cost to the Treasury Board was approximately \$300 million. Is that still the situation eight months after the estimate?

Mr. Chrétien: Mr. Chairman, I am informed that we have no reason to change that estimate.

Mr. Stevens: As I understand it, this is a 3 per cent allowance regardless of the circumstances. A man may have \$1 million worth of inventory on hand. For some reason he starts every year with \$1 million worth of inventory. He receives a \$30,000 deduction from his income per year. At the end of ten years he would have received the benefit of \$300,000 because of that \$1 million worth of inventory. Is my observation correct? Why is there no recapture provision if that person finally sells his inventory and receives \$1 million? As I understand the present provision, it would be a complete windfall to the company under the circumstances I have just described.

Mr. Chrétien: Mr. Chairman, I do not see any benefit to that person holding the same \$1 million worth of inventory year after year, because inflation continues. He would receive a \$30,000 deduction per annum for that \$1 million worth of inventory. Therefore I do not consider that to be a loophole or a bonanza. I should like to advise the hon. member that I will check into that to see if there is any validity to his argument.

The Chairman: It being six o'clock, it is my duty to rise, report progress, and request leave to consider the bill again at the next sitting of the House.

Progress reported.

Mr. Deputy Speaker: It being six o'clock, this House stands adjourned until tomorrow at two o'clock, pursuant to Standing Order 2(1).

At 6.02 p.m. the House adjourned, without question put, pursuant to Standing Order.