

Mr. Chrétien: Of course this is a very common problem for people who accumulate savings by not cashing their coupons and then decide to cash them at some point. They can decide not to cash them all at once but to spread them out. There is the averaging provision in the Income Tax Act that might be of some help to them. However, I will look into the matter mentioned by the hon. member and make sure that a reply is provided to his constituent.

Mr. Friesen: May I make one other point to the minister? He makes the point that an individual does not have to cut the coupons, but the point of this series of bonds was that they accumulated interest, provided he would not cash in the coupons. In other words, the government wanted the advantage of a secure capital over these ten or 11 years and therefore asked the purchase of those bonds not to cash in the coupons. Is he going to be punished for doing what was helpful to the government and obviously providing the government with some capital?

Mr. Chrétien: When we go into the market to raise some money, we offer many forms of bonds, and every individual decides what bonds he wants to purchase. When that series of bonds was offered, there were some advantages in the immediate future for the purchaser if his income was high enough at that time. Some people would buy those bonds and have the interest on them accumulate, knowing that in five years time they could cash them. Let us suppose that a member of parliament buys them knowing his average years of survival as a member of parliament and that in five or ten years time he will want to cash the bonds, so he can make some provision for that. Other people who are at the age of, for example, 50 and planning to retire at the age of 60 will have an incentive to buy that type of bond.

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However, he knew what he was buying, and he is not punished when he cashes his coupons. Perhaps the person who sold the bonds to him misled him, but on the bond itself it is very clear that when cashing it the accumulated interest must be paid.

Mr. Friesen: Mr. Chairman, I think this will be my final question to the minister on this topic. The gentleman is not complaining about the bonds, and he is not complaining about having been misled. He knew what he was buying, and he was satisfied with the bonds he bought. He is concerned that there is now no government information on what the requirements are relative to his income at this point. The only circular the official could give to him was circular 72-21, which does not fit the situation. Is there a specific piece of information in printed form which we can send to people like this who are facing a problem with an S-24 bond and facing problems arising out of that accumulated income?

Mr. Chrétien: Mr. Chairman, I will certainly look into the matter to try to find some more precise information, and I will give it to the hon. member. We will be in touch with the

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Department of National Revenue on that. Would the hon. member be gracious enough to send us a copy of his letter?

Mr. Friesen: Sure.

Mr. Clarke: Mr. Chairman, I want to ask the minister about the reasoning behind the change which is going to be brought about by the amendment to clause 14 in relation to interest on insurance policy loans. I am delighted to see that the interest which is paid to earn income is now going to be allowed as a deduction from business income. I am glad, because I made this point in my speech at second reading, but I specifically want to ask the minister what it was that caused his predecessor, in explaining at the introduction of this in the budget of March 31, to say that in the opinion of the government loans on insurance policies are not loans because there is no obligation to repay the amount received from the insurance company?

It seems that the government has had a change of heart and is now considering these amounts as real loans, and the interest which is paid to earn the real income is going to be allowed. I think I will stop there.

Mr. Chrétien: I have no comment to add, Mr. Chairman.

Mr. Clarke: I was not asking for additional comments. I wanted an answer. Perhaps I can strip all of the preamble from my question. What was the reasoning of the government in saying, when Bill C-11 was initially introduced, that the interest on insurance policy loans would not be allowable as a deduction from income?

Mr. Chrétien: Mr. Chairman, I think there were many good reasons, not the least of which was one given before a committee of this House by the insurance companies themselves. They did not want to be covered by the Borrowers and Depositors Protection Act. The insurance companies argued in that committee that those advances were not loans. Perhaps I can read from page 16 of the presentation of the Canadian Life Insurance Association to the Standing Committee on Health, Welfare and Social Affairs with regard to the Borrowers and Depositors Protection Act.

In January of this year that association said the following about the nature of policy loans:

"Policy Loans" represent an area in which the life insurance industry, in the eyes of the public, might be seen as making "loans". These are not, however, really loans at all despite the common terminology used to describe them, as the Supreme Court of Canada concluded in the case of *Equitable Life Assurance Society v. Larocque*, (1942) S.C.R. 205. There is no advancement of credit; no debt is created; nor is there any right on the part of the insurer to demand payment either of principal or of interest. Rather, the process represents essentially an advance of the benefits payable under the policy.

The same thing was argued in the Senate Banking Committee on March 16, 1977, as recorded in issue No. 22. The subject matter of the proceedings then was Bill C-16, the Borrowers and Depositors Protection Act. The life insurance companies themselves argued that this is not a loan, and consequently my predecessor said, "If I accept your argument