Second:

The proposal to tax policy gains at death is contrary to current legislative trends in Canada as well as the rest of the world ... This concept was thoroughly discussed at the time of the Carter report and rejected.

Third:

Policy holders have paid premiums on whole life insurance in good faith since their policies were initiated, in the firm belief that the benefits would be honoured according to the contract. It seems inconceivable that politicians consider undermining life long investments by introducing legislation taxing such benefits ... the concept is resented ...

Fourth:

The tax at death suggestion would result in people being penalized for saving money through the purchase of permanent life insurance and would be an invitation to more people to rely on federal handouts in their old age.

On proposed disallowance of interest on policy loans as a tax deduction, first:

It has clearly been established that interest on policy loans used to invest in a business or income producing property are deductible. The legislation, in choosing to call a policy loan an "advance", ignores the fact that the policy loan meets the deductibility test.

Second:

... the interest on any loan I take on my life insurance where the purpose is to earn income should be deductible in the same way as any other interest which is incurred to earn income.

Third:

Curiously enough, by forcing people to borrow on their policies at the bank rather than directly from the insurance company, the proposal will end up foregoing more tax revenue because the bank rate of interest in generally higher than that applicable to a policy loan.

On the proposed tax on policy gain at the time of a policy loan, first:

It has been my personal experience that loans on my life insurance policies have been required at times of financial emergency, or, as recently, to take advantage of a business opportunity. It seems completely unreasonable to levy an income tax at a time—if I borrowed money on my home or on my investment portfolio there is no proposed tax.

Second:

... all the policies I have contain "loan clauses" and I have frequently borrowed, paid the interest, and repaid the loans. I emphasize that these are "loan clauses" and not policy advances and it is not right for the government to try to change this concept.

In conclusion, as these excerpts demonstrate, my constituents are well informed on this complex issue and have a clear understanding of its serious consequences. With this in mind, therefore, I would once again urge the minister to reconsider this tax proposal to see whether it is truly worth while and, if so, to endeavour to remove what would appear to be serious anomalies in its application. Unfortunately it has detracted badly from an otherwise useful, economically stimulating, free enterprise budget. Once again, Mr. Speaker, I find myself on the same side as my constituents in asking whether the minister will rescind this proposal for a tax on life insurance beneficiaries.

Mr. Bob Kaplan (Parliamentary Secretary to Minister of Finance): Mr. Speaker, I should like to begin by thanking the hon. member for his commendation of the other provisions of the budget; it is good to know that he is with us in general on the thrust of the budget. What I should like to do with the proposals that he made in connection with insurance is to ask some very simple questions, questions which the government had to confront in deciding on the basic rules for taxation of insurance.

The basic question is this: when insurance is a form of investment, should it not bear some fair share of tax considering that all other forms of investment in our society bear some form of tax? I suppose you can argue it would be better if there were no taxes payable on investments at all. One could make that case. Once it is determined that taxation ought to apply, should it not apply on an equitable basis to all forms of investment?

Insurance is a special investment. It is a peculiar and unique type of investment. It is difficult to have general rules which apply to other investments and make them applicable to insurance, but the basic principle is unarguable. Insurance is an investment and, like any other, it ought to bear its fair share of tax. It is with that approach that the government looked at insurance and made recommendations to parliament. We are not proposing to tax the protection factor or the mortality factor. To the extent the insurance benefit represents a payment for risk, no tax is payable or proposed to be payable on that portion of the proceeds. To the extent it is an investment, the fundamental question is: why should it not bear tax on the same basis as any other form of investment does? I do not think there is a satisfactory answer to that question. That is the basis on which we proposed it.

After the tax reform of 1971 there was some pause in negotiations with the insurance industry and representatives of those concerned with insurance. It was decided that the insurance companies would pay a 15 per cent tax straight across the board on all the earnings of their investment portfolios. Why 15 per cent? In the case of those policy holders who are low income individuals and have no other source of income, 15 per cent is too high. In the case of those who own very large insurance policies and who are getting the benefit of a large