

should increase the adjusted cost basis of the policy. This amendment provides for that result. Do you want me to read them all?

**Mr. Stevens:** No. Read them each time we deal with an amendment.

**Mr. Chrétien:** Subparagraph 148(9)(a)(iv) is consequential on the amendment to subclause 14(1) previously announced. This amendment avoids double-counting. It ensures that where a deduction has been made on the repayment of a policy loan, the deductible amount does not also increase the cost basis of the policy.

The amendment to subparagraph (v) is strictly technical. It merely clarifies that the time referred to in the parenthesis is the first anniversary date after March 31, 1977, and not the particular time at which the "adjustment cost basis" calculation is made.

**The Chairman:** Shall the amendment to subclause 74(4) carry?

**Some hon. Members:** Carried.

Amendment (Mr. Chrétien) agreed to.

**The Chairman:** I will put to the committee another amendment moved by Mr. Chrétien. It is the amendment to subclause 74(6) of Bill C-11.

**Mr. Chrétien:** Mr. Chairman, the explanation is a very short one. Subclause 74(5)—

**Mr. Stevens:** On a point of order. I thought the Chair said we were on subclause 74(6). I think we should be on subclause 74(5). The minister is responding to subclause 74(5).

**The Chairman:** We are on clause 74 in which you find various subclauses, and the first amendment I just put to the committee was an amendment on subclause 74(5) which was carried.

**Mr. Stevens:** No, that was 74(4).

● (1722)

**The Chairman:** The next one I have is on 74(6). I do not have an amendment on 74(5).

**Mr. Chrétien:** While the amendment is being tabled, Mr. Chairman, I will read the explanation. This is a minor technical amendment to the definition of a disposition of a life insurance policy. It is necessary to treat all policy loans the same.

**The Chairman:** I have the feeling that I mentioned the amendment to subclause 74(6). I want to make sure that the amendment to subclause 74(5) has been put and carried.

**Mr. Stevens:** Not yet.

### Income Tax

**Mr. Chrétien moved:**

That subclause 74(5) of Bill C-11 be amended by striking out lines 37 to 40 on page 162 thereof and substituting the following:

"(ii) a policy loan made after March 31, 1978,"

Amendment (Mr. Chrétien) agreed to.

**Mr. Chrétien moved:**

That subclause 74(6) of Bill C-11 be amended as follows:

(a) by striking out line 28 on page 163 thereof and substituting the following:

"respect of a policy loan other than interest deductible in the 1978 or any subsequent taxation year pursuant to paragraphs 20(1) (c) or (d);"; and

(b) by striking out lines 8 to 12 on page 164 thereof and substituting the following:

"(ii) in respect of a policy loan made after March 31, 1978, means the amount of the policy loan;"

He said: The amendment to paragraph 148(9) (e.2) of the Income Tax Act is related to the addition of paragraph 20(1)(hh) of that act. Paragraph 20(1)(hh) restored the deduction for interest paid on policy loans, the proceeds of which are used to earn income. If the interest is deductible in computing income it will not be treated as premium, and will not be added to the adjusted cost basis of the policy. Conversely if the interest is not deductible it will be treated as a further premium and added to the adjusted cost basis of the policy.

The amendment to paragraph 148(9)(e.2) is a minor technical amendment to the definition of proceeds of disposition of an insurance policy. It is necessary to treat all policy loans the same.

Amendment (Mr. Chrétien) agreed to.

**Mr. Chrétien moved:**

That subclause 74(7) of Bill C-11 be amended as follows:

(a) by striking out lines 15 to 24 on page 164 and substituting the following:

"subsection:

"(10) For the purposes of this section,"; and

(b) by striking out line 34 on page 164 thereof and substituting the following:

"a reference to an annuitant under such a life".

He said: The first amendment to subclause 74(7) deletes subsection 148(10) of the Income Tax Act. This subsection is no longer necessary because of the decision to allow a deduction for interest on policy loans used to earn income.

The second amendment to this subclause is a relieving technical amendment. It affects life annuity contracts. The amendment will ensure that where a life annuity contract is terminated by death, no tax will arise on any death benefit paid under the policy. This change is necessary to fulfil completely our commitment to remove the tax on death.

Amendment (Mr. Chrétien) agreed to.

**Mr. Chrétien moved:**

That subclause 74(8) of Bill C-11 be amended by striking out line 36 on page 164 thereof and substituting the following:

"(8) Subsections (1) and (2) are appli—"