

Oral Questions

Mr. Macdonald (Rosedale): Mr. Speaker, I repeat that this is to treat those who save by way of whole life policies in the same way as people who save by other instruments. It is to put all savers on the same basis. There will be a special benefit for policyholders who are entitled to modest amounts. I acknowledge that the life insurance industry has mounted a very extensive lobby. I think it is fair to point out to the House and to the country that it was the life insurance industry which asked to have part XII changed in order to put whole life policies on the same basis as other saving instruments.

Mr. Baker (Grenville-Carleton): Mr. Speaker, considering that very few countries in the world tax life insurance benefits, and considering that the Carter commission on taxation recommended against levying death duties—and that is all this is, another form of death duty—can the minister refer the House to any report or study which has recommended the imposition of such measures, and if he cannot, will the government reconsider the second question and consider abandoning what is a retrograde step in the field of death duty taxation, no matter what colour the minister tries to paint it?

Mr. Macdonald (Rosedale): Mr. Speaker, the hon. gentleman is wrong again. The measures do not tax the death benefits involved in a whole life policy. The death benefit is specifically exempt, and if the hon. member would examine the law, he would find that out. He would also find, however, that the savings that an individual has been able to enjoy tax free throughout his life are brought into taxation, just as all other kinds of savings are at the date of death. I again point out to the hon. gentleman that the part XII tax was brought in as a result of the Carter commission report which recommended that savings of this kind should be treated like savings of every other kind and that they should bear their portion of the taxation.

REASON FOR TREATING LOANS ON INSURANCE POLICIES AS
DISTRIBUTION OF INCOME—POSSIBLE REFUNDING OF TAX
WHEN LOAN REPAID

Mr. Stan Darling (Parry Sound-Muskoka): Mr. Speaker, I would like to direct a question to the Minister of Finance. I note that the minister proposes to treat the amount of a policy loan in excess of premiums paid as a distribution of income. In view of the fact that millions of Canadians borrow from policies for such purposes as sending children to college or meeting emergency expenditures, will the minister tell the House why he proposes to deprive Canadians of a source of inexpensive and easily accessible financing which is not subject to substantial tax penalties?

Hon. Donald S. Macdonald (Minister of Finance): Mr. Speaker, the hon. gentleman might like to read the law or have someone interpret it for him.

Some hon. Members: Oh, oh!

Mr. Paproski: Your arrogance is showing.

Mr. Macdonald (Rosedale): Mr. Speaker, I say that to the hon. gentleman because I recognize that he is not a member of the bar and because this is a very difficult and complex measure. I say that in no demeaning sense. To the extent that the amount of an advance under a policy exceeds the aggregate premiums and also to the extent that the \$1,000 exemption is now available, it will be taxable. We anticipate that in most cases this will not result in a tax liability.

Mr. Darling: Mr. Speaker, since the minister fails to see the similarity between borrowing on the security of, for example, the family home and borrowing on the security of a life insurance policy, can he tell the House whether he will consider refunding the tax assessed on policy loans once they are repaid?

Mr. Macdonald (Rosedale): Mr. Speaker, to the extent that there have been advances made on policies, any advances repaid on the policies will be added for the purpose of increasing the amount of aggregate premiums and therefore increasing the ultimate taxable exemption. The difference between an advance on a life insurance policy and any other kind of advance by way of loan is that there is an obligation to pay other kinds of loans back. That is not the case with respect to life insurance policies.

● (1420)

PROPOSAL TO TAX BENEFITS OF LIFE INSURANCE POLICIES—
EFFECT ON SMALL BUSINESSES

Mr. Stan Darling (Parry Sound-Muskoka): Mr. Speaker, a supplementary question. Considering that many small businessmen now borrow on their insurance policies and deduct interest payments on those loans as a legitimate business expense, does the minister not realize that the cumulative effect of the two tax proposals relating to policy loans will be to force small businesses to make an attempt—not necessarily successful—to get financing from other financial institutions at much higher rates of interest? Has he consulted with his colleague the Minister of State (Small Business), to ascertain whether these tax changes are in the interest of the small business sector?

Hon. Donald S. Macdonald (Minister of Finance): Mr. Speaker, the hon. gentleman might want to think about the mathematics of that. The small businessman would go to a banker to borrow at 12 per cent but he can get an advance on his policy at 6 per cent. In other words, the advance on the policy is a substantial benefit now and it seems to us it should be treated as an advance, which it is, and not a loan, which it is not.

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ATOMIC ENERGY OF CANADA LIMITED

DATE MINISTER WAS AWARE OF LOSS

Mr. T. C. Douglas (Nanaimo-Cowichan-The Islands): Mr. Speaker, may I direct a question to the Minister of Energy,