

*Income Tax*

made by a financial institution, a bank or a credit union. So in the case of a policyholder who applies for a loan—I do not have to be as cautious as the minister—for, say \$3,000, from his insurer for the year 1978 only, his loan will be considered as income and if it is reimbursed in 1979, it could be charged against his income in 1979.

**Mr. Chrétien:** I will use everyday language instead of the legal jargon I tried to use a few minutes ago. Let us suppose a person borrows, as the hon. member suggests, \$3,000. If that \$3,000 is to increase his income, if he is a businessman, if he wants to invest in his business or earn additional income, the interest he must pay back annually to the insurance company, if he does pay it back, will be considered as an expense on his tax return for the following year.

**Mr. Clermont:** Mr. Chairman, that was one of the remaining problems about life insurance. With respect to the loan will the two amendments tabled in the House correct the two problems I see with clause 14. The first one is taxing the policyholder when he takes out a loan on an insurance policy; the second is prohibiting in any case the interest on a policy loan from being deductible as an expense. So I understand that, as one of the amendments, the interest paid by a businessman or the head of a small business on a loan made on his insurance can be considered as an expense. But at page 31 of his Economic and Fiscal Statement the Minister of Finance (Mr. Chrétien) says, and I quote:

• (2152)

That where, after March 31, 1978, a life insurance policy is surrendered or matures, otherwise than on death, a policyholder be required to include in his income the excess of the amount received in respect of the surrender or maturity over the greater of the cash surrender value of the policy at its first anniversary date after March 31, 1977 plus the net premiums paid after that date and his net cost of the policy.

Mr. Chairman, I gave the example but I am sorry the minister did not answer it. Here it is again: In 1978, I borrow \$3,000 on an insurance policy I have with a certain life insurance company. In 1979, according to clause 14 I must consider that loan as income and add it to my income for 1978. But if I pay that loan back the same year or the year after I have the right to deduct it from my income. Is my interpretation correct or not, Mr. Chairman?

**Mr. Chrétien:** Mr. Chairman, the interpretation of the hon. member is partially correct that in the sense that if you borrow money on your policy, there are two aspects to consider. First is the life insurance and second the gains made by the company on that policy. If you withdraw a part of what is called gains, it will be considered as an income but if you repay it to the company, the situation will then be corrected. So, on those \$3,000 there might be \$2,700 that are strictly a loan on the policy and \$300 that will be considered as the company's gain, the \$300 being considered as an income.

**Mr. Clermont:** Mr. Chairman, the minister has given in to 90 per cent of the representations made by several of his colleagues on the government side.

[Mr. Clermont.]

**Mr. Chrétien:** No, 100 per cent.

**Mr. Clermont:** Mr. Chairman, I do not withdraw my thanks, I maintain them, because they have corrected, first the question of an eventual tax on policy proceeds at death and also the other two problems I just mentioned. As the minister said, he is very generous and understanding, particularly when his colleagues on the government side make representations to him.

**Mr. Trudel:** Mr. Chairman, the minister underlined earlier in his remarks that there are some people who borrow money on their insurance policy and do not pay back these loans. If I understand correctly the minister's interpretation, if for a reason or another you repay this amount, you then diminish your income accordingly. If for instance you keep the loan over a period of years, can you claim its costs, which are minimal incidentally, but as being an expense on this loan for a period of years, because policyholders contract loans on their insurance policy and never intend to pay back these amounts of money which, in certain cases, are rather considerable? Are the costs of these loans or the service cost of this loan by the insurance company going to be deductible over a period of years?

**Mr. Chrétien:** The cost of the loans will be considered when they are reimbursed as being payments which are tax deductible.

**Mr. Trudel:** Mr. Chairman, I understood the minister's explanation because he has been very clear about it. What I mean is whether this does not apply to the loan per se. I am talking about the cost, the interest which the insurance company charges the borrower. In certain cases, the sum of \$3,000 was mentioned earlier, but there are people in business who have borrowed fairly large amounts, so the question is whether the cost of this loan toward the insurance company is going to last over a period of years because in certain cases this amount is never paid back to the insurance company, then it is deducted from the proceeds instead of being reimbursed?

**Mr. Chrétien:** The interest that will be reimbursed will be included in the cost of the policy when it comes to maturity, and at such time it will be deducted from the part of the insurance policy which is taxable as we are all aware. There is the part which is strictly life insurance and the part which represents an investment and the interest costs will be deductible from the tax to be paid on the investment part of the policy.

[English]

**Mr. Darling:** Mr. Chairman, as the minister knows, I am interested in these particular clauses and I want to pay him full marks, as well as his parliamentary secretary and, I am sure, a great many other colleagues on the other side of the House—

**An hon. Member:** Is this a love-in?

**Mr. Darling:** —who have considered the representations made by some of us at the very beginning, and the representa-