

*Income Tax*

**Mr. Chrétien:** Mr. Chairman, before I give my explanations, I would like to table some amendments related to clause 14(1). Next, I will present an amendment to clause 14(2). So I will table the amendments forthwith and give the explanation.

I move:

That subclause 14(1) of Bill C-11 be amended as follows:

(a) by striking out lines 32 to 35 on page 21 thereof and substituting the following:

"the end of paragraph (ee) thereof and by adding thereto the following paragraphs:"; and

(b) by striking out line 7 on page 22 thereof and substituting the following:

"365; and

Policy loan repayments

(hh) an amount in respect of all or any part of any policy loan repaid by the taxpayer in the year not exceeding the amount, if any, by which

(i) the amount required by subsection 148(1) to be included in computing his income in the year or a previous year from a disposition described in subparagraph 148(9)(c)(ii) in respect of that policy

exceeds

(ii) the part of any loan on that policy repaid by the taxpayer that was deductible under this paragraph in computing his income for a previous taxation year."

That subclause 14(2) of Bill C-11 be amended by striking out line 21 on page 22 thereof and substituting the following:

"March 31, 1977 except to the extent the amount thereof it verified by the insurer in prescribed manner and prescribed form to be interest paid in the year on that loan that is not added to the adjusted cost basis (within the meaning given that expression in subsection 148(9)) of the policy.

"Life insurance policy"

(2.2) For the purposes of paragraphs (1)(c) and (d) a "life insurance policy" does not include a policy referred to in paragraph 148(1)(b)."

He said: Mr. Chairman, these very important amendments are being introduced following the many representations that I have received and which were mentioned earlier this evening in the committee by the hon. member for Gatineau (Mr. Clermont). Mr. Chairman, these amendments concern what the hon. member called insurance policy loans, but this expression can be misleading. The hon. member for Parry Sound-Muskoka (Mr. Darling) also made many representations in this regard. This is what the government has decided to do. Mr. Chairman, in spite of what was provided in the bill, when someone borrows, to use the popular expression, a certain amount on his insurance policy, the amount he must pay and which was previously considered as interest but which legally constitutes charges, will actually be considered as tax deductible within the year for businessmen as well as for ordinary taxpayers. The amount of the charges or interest will be considered as a payment on the policy and will be deductible when the policy comes to maturity. To make myself better understood, I should perhaps read a very long—no, it is shorter than what I have already read. I shall therefore read more technical explanations after giving a layman's version of these changes.

● (2142)

[English]

These amendments relate to the treatment of advances on insurance policies, the so-called policy loans. I have carefully gone over the recent representations I have received on this

matter, particularly from small businesses, and I have reviewed the comments on second reading of Bill C-11. The impression I have formed is that there is general satisfaction the bill will, for the first time, give tax recognition to the vast majority of policyholders for the interest they pay to an insurance company when they take out a policy loan. I want to clarify this. It is not really a loan. It is an advance. The word "loan" was used to facilitate the discussion. It will do this by an upward adjustment in the recorded cost base of the policy. However, I have also formed the impression that the small proportion of policyholders who use the proceeds of policy loans to earn income would prefer to receive such relief in the form of a current deduction from taxable income, rather than through an adjustment to the cost base of their policy. Amendments to clauses 14 and 74 will achieve this.

Furthermore, the amendments will enable a policy holder, on repayment of an advance on a policy, to reduce his current taxable income by the amount it was increased as a result of taking out the advance. In the bill this tax adjustment takes the form of an upward adjustment in the cost base of the policy. Representations to us indicate that policyholders would prefer to have the relief in the form provided by the amendment, rather than in the form provided by the bill as it is.

In short, there were some changes which were advantageous in the bill. They will remain. It will provide an added option to the person borrowing on his policy to deduct from his income the payments made on a yearly basis. I can see the hon. member for Parry Sound-Muskoka is listening. I appreciate that. Many members on the government side have asked me to reconsider that. Everyone knows I am an extremely flexible person.

**Mr. Stevens:** Mr. Chairman, I have a couple of questions for the minister. Dealing with subclause (1) of clause 14, would the minister agree that this amendment provides, on the repayment of a policy loan, that the taxpayer may deduct from his income any amount previously included in income by virtue of his policy loan?

[Translation]

**Mr. Chrétien:** The answer is yes, Mr. Chairman.

[English]

**Mr. Stevens:** Dealing with subclause (2) of clause 14, would the minister agree that this amendment provides for interest payable on a policy loan being deductible, subject to the insurance company making certain recommendations concerning how they are treating the loan interest?

**Mr. Chrétien:** Mr. Chairman, if the loan is used to earn income, the answer is yes.

[Translation]

**Mr. Clermont:** Mr. Chairman, the minister said that he must choose his words but he is not sure, he did not accept that it could be considered as a loan; he called that an advance. But I could quote a great number of experts who claim that it is actually a loan which complies with the requirements of a loan