

Income Tax

Mr. Stevens: I wonder if the minister could indicate one nation where the gain we are proposing to tax is taxed in the same way?

Mr. Chrétien: Mr. Chairman, I just said other nations tax in different ways, some indirectly. The gains are taxed in different nations. I do not have the repertoire of all these things in front of me. I can humbly admit I do not know which one, how much and so on. I think, with due respect, it is a little irrelevant. The hon. member says he is happy with the changes, so the best thing he could do at this time is let us vote.

Mr. Stevens: Mr. Chairman, I will be very direct with the minister. We are happy with the changes, but why can the minister not go all the way and delete this silly tax? Why do we have to live with a mistake that the bureaucracy attempted to get by us?

[*Translation*]

Mr. Chrétien: Mr. Chairman, I took the trouble earlier of explaining twice why we keep the taxation on certain parts of the insurance policy when we borrow. I gave the hon. member for Parry Sound-Muskoka (Mr. Darling) and the hon. member of the riding next to his a lengthy answer and I think it will not be necessary at this point to repeat it. I explained that it is possible in certain circumstances for some people inheriting a single policy to earn over a period of 12 years an amount equivalent to the amount of the investment and they could take it out without paying any tax. In the case of a very large amount this could provide a way of evading taxation and that is why we are keeping it in. But I explained that this would not apply to perhaps less than 1 per cent of the policies and hon. members should bear in mind that we should try to avoid allowing certain people to use this provision of the act to create loopholes for tax evasion.

[*English*]

Mr. Stevens: Mr. Chairman, I think that half the time the minister does not understand the questions. We have many more clauses to deal with and I propose that we get on with this amendment. I wish the minister had dropped the idea of taxing gains on life insurance policies, but if we cannot talk reason into him we have no alternative but to accept the amendment.

Mr. Chrétien: Mr. Chairman, I think if the hon. member had been here when I gave the explanation he would have understood.

Mr. Stevens: I was here.

Mr. Chrétien: That is even worse. After two explanations that satisfied everybody I could not satisfy the hon. member because he did not have any understanding at all.

The Chairman: Maybe I should intervene at this point. The hon. member for York-Simcoe refers to the amendment and it is brought to my attention that while the minister moved the amendment yesterday, it was not put to the committee by the

Chairman. Maybe I should put the two amendments to the committee. I have to put them one at a time, and after the vote on one I shall put the other.

Mr. Chrétien moved:

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

(a) by striking out lines 32 to 35 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 loans 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.”

Mr. Clarke: Mr. Chairman, in my earlier questions I am afraid I may have confused the minister about the interest on policy loans because we got on to the definition of whether an advance was a loan. I think we dealt with that adequately, however. My question intended to address the problem of deductibility of interest. I refer to Section 20(1)(c) of the act which says that an amount can be deducted pursuant to a legal obligation to pay interest, and it mentions borrowed money, accounts payable and so on. Surely there is a legal obligation to pay interest on a loan or advance from an insurance company because they do make a demand for that, whether they demand the actual principal amount, before the death occurs.

Who decided that this interest which was legitimately laid out to earn income, which is a basic tenet of the Income Tax Act, should be changed and not be deductible?

● (1712)

Mr. Chrétien: Mr. Chairman, the hon. member is asking me about something which is no longer part of the legislation. I do not see why the committee should spend its time on something which is no longer in the legislation. I would not mind giving an explanation, but as it has been changed I would now rather discuss what we are doing than what we were doing before. I cannot give all the reasons why things were done during a time when I was not even there. I have looked at the problem again. I have changed it and now I want to discuss what is before the committee rather than what is no longer in the legislation, and therefore not part of the debate.

Now we will be permitting persons who borrow money on policies to deduct from their business income the payment they would be making, that is, the interest. It is not specifically interest and I do not want to get into the reasons why technically we have to use different language. We are re-establishing the situation as it was before, and the hon. member should be satisfied with that without forcing me to get into the