

*Income Tax*

tions and/or loss carryovers which could be used to reduce income for many years into the future.

These deficiencies were effectively eliminated in 1976. This bill attempts to deal with the carryover problem from years before 1976. The amendments require those insurers who used the branch election basis in 1975 to recalculate their gross investment revenue for that year using the proportional basis. If the recomputation produces additional revenue, the excess will be applied to reduce two specific unused reserves that would otherwise have been deductible in 1977 and subsequent years. Any balance is referred to in the bill as "the 1975 branch accounting election deficiency."

The amount of the 1975 branch accounting election deficiency will be applied in the following order:

- (a) to reduce unclaimed investment reserve
- (b) to reduce unclaimed capital cost allowances
- (c) to reduce loss carry forwards from the year 1972 to 1976
- (d) to reduce the unclaimed reserve for group term policies, and
- (e) to reduce unclaimed policy reserves for other life insurance policies and annuities.

Any remaining balance of the deficiency will be deducted on a pro-rata basis from the undepreciated capital cost of any depreciable property of the insurer.

The amendment deems the insurer to have deducted, prior to its 1977 taxation year, additional capital cost allowance on the basis referred to above. The effect is to reduce capital cost allowances that would otherwise be deductible in computing the insurer's income for 1977 and subsequent taxation years.

The addition of subsection 13(23) is one of a series of amendments related to the introduction in 1978 of a new, more stringent method of determining the policy reserves that may be deducted by life insurance companies. A life insurer is allowed to deduct certain policy reserves in computing income. The reserve claimed in one year is added to income in the following year, and an appropriate reserve is then deducted for that year. Because the policy reserves under the new method to apply in 1978 will be less than those under the existing act, the foregoing rule would force the insurer to include the entire reserve difference in income in 1978. In order to ease the impact of the transition, a special provision has been introduced—see proposed subsection 138(4.2)—to permit a life insurer to include in income in 1978, not the amount actually claimed in 1977, but a lesser amount equal to the amount the 1977 reserves would have been if they had been computed under the new method. Thus the differences between the two reserving methods will not be taxed and will in effect provide a source of base capital that will facilitate the transition.

As a corollary to this relieving measure it is necessary to scale down certain amounts which the insurer would otherwise be permitted to deduct in computing income in subsequent years. One of these amounts is capital cost allowance that the insurer was entitled to claim in the taxation years 1969 to 1977 inclusive—the years in which the old method of computing

[Mr. Chrétien.]

policy reserves was operative. To the extent that capital cost allowance was underclaimed in that period because of the generosity of those reserves, the amount that was unclaimed should not be available after 1977. This is accomplished in part by the amendment to subsection 13(23) of the act.

The proposed subsection 13(23) deems any unclaimed capital cost allowance to have been claimed prior to 1978.

● (2022)

Regulations under section 138(3)(a)(i) will ensure that capital cost allowance and other deductions in excess of the transitional difference will not be eliminated. The net result of this approach is that life insurers will have a level of income and deductions calculated on the assumption that the reserving method for 1978 had been in existence in the 1969-1977 period.

**Mr. Jones:** Mr. Chairman, having heard the great epistle from the minister, his summary or synopsis, and then the technical part, will the minister now be good enough to explain what his summary means and what he just read means in ordinary laymen's terms? A tax law should be in ordinary laymen's terms.

**Mr. Chrétien:** If the hon. member had been in the House, he would know I did that before reading the technical explanation.

**Mr. Jones:** I was here and heard both.

**Mr. Chrétien:** The first time it was in French. Perhaps I have to repeat it in English.

**Mr. Knowles (Winnipeg North Centre):** No.

**Mr. Chrétien:** Stanley says no. I just explained the difficulty. There are some corporations and insurance companies which operate in Canada and elsewhere. Some were using a loophole in order to avoid taxes in Canada. It was unfair to the multinationals which are not using that loophole and the Canadians which could not use it. These technical amendments will put insurance companies on an equal basis for that purpose.

**Mr. Stevens:** Mr. Chairman, I thank the minister for putting his summary and technical explanation on the record concerning this clause. To the best of his knowledge is the amendment which he has described satisfactory to the Canadian life insurance companies? Has he any representation from them indicating that they feel this will plug the loophole about which they have been complaining?

**Mr. Chrétien:** Mr. Chairman, we have received many representations from all the insurance companies, both the Canadian companies and the multinationals. They could not develop a position on which they could all agree. This will meet the requirements of most of them. We are not sure that everyone will be happy with the technique we have adopted,