

Income Tax

I have to amend the act and treat those advances as if they were not loans”.

No one saw all the implications, so I examined the matter. I do not want to lay blame on anyone. The insurance companies made their presentation. I do not blame the insurance companies or my predecessor. I do not have to comment on their motivation. However, I examined the matter. There was not much money involved. Some people were unhappy. I said “Let’s change it”. I used the only yardstick for measurement I have, my own judgment.

Mr. Clarke: Mr. Chairman, I am afraid the minister sometimes listens too much to the vested interests, in this case the insurance companies. If these are not loans by insurance companies to policy holders, how is it that when a policy holder dies the amount of the advance, loan or whatever is, at that time is collected from the estate by way of deduction from the payment of the proceeds of the policy?

Mr. Chrétien: Mr. Chairman, I am sorry. I was talking, and I did not hear the question. Would the hon. member repeat it, please?

Mr. Clarke: Mr. Chairman, I would be delighted to repeat my question. If it is not considered a loan or if it is decided that an advance is not a loan, how can it be explained that upon death an insurance company collects the amount of a loan or advance from the proceeds before paying out the net proceeds to the estate?

Mr. Chrétien: It is already paid out. It is calculated out of the payment which is being made on the policy. It is considered an advance. It was previously paid out, so it is not collected, unless the hon. member knows of a mechanism which is different from the one I know about. Perhaps there is a misunderstanding between the hon. member and me. However, a combination of changes proposed by me and changes proposed by the hon. member for Rosedale gives a better break to the ordinary policy holder than he had before because the cost base of the policy is adjusted.

Mr. Stevens: Mr. Chairman, to help remove any uncertainties about the government’s position, now that it has brought in the amendments we have before us, I think I should refer the minister to a letter sent by his predecessor to all members of the Liberal caucus. The letter is dated August 3. The then minister set out an 18-point memorandum explaining why he felt the provisions he announced with respect to life insurance policy holder loans, the treatment of interest on those loans, and the taxation of that investment income at death were justified. In this memorandum the minister asks questions and then sort of answers them. I thought we should get on the record whether the minister differs or otherwise with his predecessor.

[Mr. Chrétien.]

● (1702)

Item 11 reads as follows:

The statement has been made that Canada is the only country in the world to tax the gain on a life insurance policy. Is this true?

The former minister gave the following answer:

This statement may be true, but it must be recognized that one must consider the level of taxation the industry as a whole must bear and not just one isolated area.

Could the present minister tell us whether he agrees with that?

Mr. Chrétien: Mr. Chairman, in this bill there are some changes to the rate of taxation applicable to insurance companies where they are dealing with one aspect related to policyholders and what we consider as a loan on the policy. There are all sorts of changes applicable to the reserves and we have to calculate the reserves so that those companies can bear a reasonable share of income tax like other companies.

Mr. Stevens: Perhaps the minister misunderstood my question. The statement was that we in Canada are the only country in the world to tax the gain on a life insurance policy. In other words, using the little formula that the bureaucracy has worked out where you take the cost of the policy and if there is a cash surrender value greater than that cost, then somehow there is deemed income, the statement was made that taxing such a gain would mean Canada is the only country in the world to do so. The previous minister said that was true. Does the present minister agree that what we are proposing makes us unique?

Mr. Chrétien: Mr. Chairman, I do not intend to comment on that. I have looked at the problem and decided to make changes. I have not read this letter and I should like to analyze it before commenting. I do not have the letter but I do not think it will add much to the debate to see whether my thinking is the same as that of my predecessor. When I listen to the hon. member for York-Simcoe I know that very often his own thinking changes from one moment to the other.

Mr. Stevens: On that last point, Mr. Chairman, I hope the minister will draw it to my attention anytime he believes my thinking has changed on a particular point.

Mr. Chrétien: With pleasure.

Mr. Knowles (Winnipeg North Centre): He is an old Tory; he never changes.

Mr. Stevens: Let us forget about the letter. We are pleased that the minister has watered down the previous life insurance taxation even to the extent that he has. I should still like to know if the taxation of the gains contemplated in the amendment to subclause 14(1) makes it unique in the world.

Mr. Chrétien: I am told we are not the only one, Mr. Chairman. I have not checked all the policies of all the world but those gains are taxable in different ways in different nations.