

Income Tax Act

costs of the company. Then, when investment income is determined, it is taxed at the rate of 15 per cent which, incidentally, is about the lowest tax rate on our present tax scales.

The dividends distributed out of that investment income to policyholders are not taxable in their hands, no matter whether those dividends are distributed in cash or credited to them. They are not taxable in their hands. After dividends are deducted from investment income an amount remains from which the company deducts the balance of its operating expenses. It pays tax on this net income, as does any other corporation. This provision applies to mutual and stock companies.

Mr. Winch: Could I ask the minister to clarify something, Mr. Chairman? May I cite my own case as an example. I have a 20 pay life insurance policy which was paid up 10 or 15 years ago. I have never drawn out the dividends, nor the interest on the dividends. Will I have to pay tax on the accumulated money under this legislation? If so I will immediately draw out my money. Will this legislation be retroactive? Will I have to pay a tax on future interest earned? I wish the minister would clarify this. If he does not I shall get in touch with my insurance company tomorrow and take my money out.

Mr. Benson: Mr. Chairman, my hon. friend gave a good example. I advise him not to do what he is thinking of doing. We have not made this type of legislation retroactive. As a matter of fact, the value of the policy will be computed on the second anniversary after the date of the budget. That is, it will be two years after October 22. Any moneys accumulated under the policy to that date will be non-taxable. Even in those cases where one buys life insurance and continues that life insurance in force, there will be no tax on that money in the hands of the individual, if he holds the policy until death.

● (4:10 p.m.)

This does not affect previous policies. It only affects policies which are cashed in following the second anniversary date after October 22. Say a man buys a policy at age 50, makes payments on it until he is 65, and then decides to cash it in. If he gets an amount of money back which is greater than the cost of the policy to him, it is income in his hands. It is really interest in his hands, and that is taxable. But no one need feel that they are going to lose by keeping the policies they have.

[Mr. Benson.]

Mr. Winch: I am sure the minister is going to help a lot of people with the information he is giving now, but I would like one further explanation. Could the minister explain, if one takes the cash surrender value of a policy, whether that amount of money is taxable?

Mr. Benson: Under present circumstances for policies held up to two years from the budget date—no. What happens in the future from that date on is that if you have insurance and you pay premiums on the insurance policy, and get dividends to offset them, you may end up with a cash surrender value ten years later that is \$500 more than the policy value as determined at the two year calendar date, plus all net premiums, and if the cash surrender value is greater than those two the tax is on the difference which is realized by the individual at the particular time he cashes his policy.

To take a simpler example, if you were to start fresh now and went out and bought a policy at age 20 and held it until age 50, a policy for \$10,000 face value, which is worth \$7,000 at the time you cash it in, then if you had paid only \$6,000 in premiums and took the cash surrender value of \$7,000, the \$1,000 difference would be taxable in your hands. Only the investment increment realized by the individual is taxable in his hands.

[Translation]

Mr. Beaudoin: Mr. Chairman, there is a point which is not clear to me. It is the amendment which reads as follows:

—by striking out line 26 on page 28 and substituting the following:

'policy (other than a policy that is a registered retirement savings plan or that is or is issued pursuant to a registered pension fund or plan) all or any part of the insurer's'

I think it is about a policy in which there is the additional clause 79B included in the former legislation. Is not the difference in the cost of the premium taxed according to section 79B of the former legislation, and is it necessary to tax the amount of the pension of the policyholder according to this amendment?

[English]

Mr. Benson: The reason for this part of the amendment is that we are trying to segregate from the investment income of the companies, retirement policies of individuals which are retirement savings policies. Just as we do not tax retirement savings plans until the recipient gets the money in a pension benefit,