

TAXING THE POLICYHOLDER

Subject is Discussed at Ottawa—Finance Minister White Says Life Insurance is of "Extreme Importance."

An animated discussion took place in the House at Ottawa last week regarding the taxation of life insurance companies. It will be recalled that fraternal benefit societies and life insurance companies were exempted from the special taxation recently proposed. Hon. W. T. White, finance minister, stated that it did not appear to him advisable that this taxation should fall in any substantial measure upon the policyholders of life insurance companies because, he added, "life insurance is a matter of extreme importance to the individual and to his family."

"The superintendent of insurance reports without any hesitation that any taxation that might be imposed upon life insurance will be borne by the policyholder, and it is his view, and it is mine, that the policyholders of the companies should not be burdened with taxation in making provision for their dependents."

"Legislation has specially recognized that life insurance policies are a class of property different from other property. For example, under provincial legislation, and I think Dominion, it is possible for one to declare a trust or to make a policy payable without consideration to a dependent or to his family, and the law will not set that aside as against any creditor. So that life insurance policies have been regarded as a class of property different from other property; I think for the reason of the dependence of a man's family upon his life insurance policy."

Policy is Sacred Trust.

Sir Wilfrid Laurier said that if there is any class of property that ought to be sacred, it is certainly an insurance policy. "An insurance policy," he added, "is a sort of trust. For instance, a young man going into business sets aside a certain portion of his earnings every year for the possible contingency that the insurance may be paid to his family. There is no more sacred trust, and I should be sorry for us to do anything here to impair the value of that trust."

Sir Wilfrid thought that the profits of life companies which are accumulated and go to the shareholders, might just as well be subject to taxation as the profits of the banks or trust companies, or of any other dividend earning company. Mr. R. B. Bennett and Mr. Pugsley agreed with this view. Mr. W. F. Maclean made a typical contribution to the discussion, and stated there was no reason why the insurance companies in Canada should not pay a percentage of their profits to the state and be made to share their profits every year.

"The large life insurance companies," he said, "make enormous profits, and instead of sharing those profits fairly with the policyholders, they hand them over largely to the shareholders."

Difference in Principle.

In replying to these and other objections, Hon. W. T. White said:—"There is a distinction between a bank and a life insurance company carrying on modern life insurance. If a bank makes certain profits as a result of its annual operations, it is open to the bank to distribute the entire sum of these profits among its shareholders, who are really the proprietors, or to put a portion of the profits to reserve. In the case of a life insurance company, as distinct from a fire insurance company, a bank, or a general joint stock company, there is the relationship of partnership between the life insurance company and its policyholders; there is the relationship of trustee and sesqui trust except as to capital. Therefore, in my view, you should not deal with a life insurance company upon the same principle as you would deal with a bank or an institution in which that fiduciary relationship or partnership relationship does not exist, unless you are prepared to go this far; that you are willing to impose taxation not only upon the institution in so far as it is owned by its shareholders, but also upon the policyholders who are participants in its profits, who are charged with a share of the expenses, and who are, in a sense, partners in the business. It is true, as stated by Mr. Pugsley, that certain life insurance companies are very large and wealthy institutions, but it is equally true that there are also many life insurance companies, especially those organized during recent years—and this also would be true of fire insurance companies—which have paid no dividends to their shareholders. This

matter has engaged my most careful attention and the superintendent of insurance, who is a skilled actuary and a man whose judgment is entitled to great weight, says:—

"It has been stated that since insurance contracts of life insurance companies are made with fixed and definite premiums throughout life, which cannot be increased, any additional tax imposed must be borne by the shareholders. It must be remembered, however, that 85 per cent. of the life insurance in Canada is on the participating plan under which profits realized over and above claims and expenses are distributed amongst the policyholders. Any tax imposed upon the premiums of life insurance companies would be immediately treated as an additional expense on the business, and would, therefore, go to reduce the profits payable to policyholders, and, therefore, to increase the net cost of insurance to those policyholders. The tax would therefore be borne by the policyholders as truly as if the premiums they pay were immediately increased by the amount of the tax."

"The superintendent of insurance has been engaged in the inspection and examination of insurance for many years and he says that is precisely what would happen. He says further:—

"It is believed to be impossible to so tax life insurance companies as to make the burden fall upon the shareholders, but that it would in every case be transferred to the policyholders of the company."

"Crying for Reform."

Mr. W. F. Maclean asked how the participation in life insurance on the participating plan was appropriated to policyholders and to shareholders.

Mr. White:—"By the directors who, as a matter of fact, are given that statutory authority."

Mr. Maclean:—"That is where the whole trouble is; they should not have that statutory authority."

Mr. White:—"That is the insurance law of this country to-day."

Mr. Maclean:—"I know it is, and it is crying for reform."

Mr. White:—"That may be a question for consideration, but I am speaking of the situation as it exists to-day and 85 per cent. of life insurance is participating and in the opinion of the Dominion superintendent of insurance, the burden of this taxation, if we imposed it, would fall upon the policyholders."

ABOUT THE AUDACIOUS WAR

In announcing the publication of "The Audacious War," by Mr. C. W. Barron, the advertisers say: "As publisher of the Wall Street Journal, the Boston News Bureau, and the Philadelphia News Bureau, Mr. Barron recently went abroad to get the financial and diplomatic inside of the war, and he got it." While this is a big claim to make, as much of the true "financial and diplomatic inside" will not be revealed for some time yet, Mr. Barron has turned out a very interesting little volume. It is full of solid facts and figures, some illuminating opinions of the author's, and a few guesses as to what will happen after the war. "The Audacious War," by C. W. Barron. Price, \$1.10, post-paid. Published by Houghton, Mifflin Company. Orders to be sent to the Wall Street Journal, 44 Broad Street, New York.

What Canada and the world has to contend with is an enormous and increasing expenditure and destruction due to an extraordinary war, writes Mr. R. D. Bell in Messrs. Greenshields and Company's monthly review. Considering that, dismay and sometimes despair gives rise to wonder that there can be optimism as to the business outlook anywhere. That is natural enough, and would be right if Canada were anything else but that which she is. To secure the basis for confidence, it is necessary to turn again to a consideration of the most elementary facts of our economic position, simply: first, that the source of our wealth and prosperity and the chief thing we have to sell is our production from natural resources, chiefly foodstuffs; second, that these things must be had by the world and are bringing us greater returns than ever before; and, third (since the measure of the return from such production is the basic factor which determines the country's buying power), that the seven or eight million people in this land who must eat, dress and provide themselves with shelter and comforts, have not been deprived of their ability to do so.