

*Income Tax*

**Mr. Rynard:** My impression was that the interest rate is 6 per cent. Certainly the prime rate is more than 6 per cent at the present time. It must be approximately 8.5 per cent.

**Mr. Chrétien:** In so far as old policies are concerned, a person can borrow and pay interest at the rate of 6 per cent, and perhaps even 5 per cent. In so far as new policies are concerned, the formula used is closer to 8 per cent or 8.5 per cent.

**Mr. Friesen:** Mr. Chairman, I should like to refer to retirement plans as they relate to insurance policies. As the minister knows, at age 70 policy holders are required to convert their retirement policies into an annuity program. Age 70 is a difficult time to face because it is a period of transition. Sometimes when people reach that age they move from one locality to another. In fact I spoke to a constituent who indicated that last year he moved from Edmonton to White Rock. For these people this time is an unsettling period of life. They have paid for ten or 15 years into a retirement plan through an insurance policy, and had started their payments when the value of the dollar was much higher, and now they have to convert those hard earned and more expensive dollars into another form because this period in their lives is also unsettling in another way. There are many vicissitudes that come to elderly folk at this period in their lives and many emergencies, and therefore they need to have that liquid capital available to them in ready form.

● (1642)

Simply to convert all of their retirement savings out of their life insurance policy into, say, a series of small annuity packages so that they can be as available to them as possible, makes it more difficult for them. I understand the principle that the savings in that policy have been untaxed and therefore, from the government's point of view, they deserve to be taxed when they are converted into an annuity program. I understand that principle, but for the person who has been a small wage earner and who has worked hard for those dollars, the \$8,000 or \$10,000 that he has saved, which looked good 15 years ago, does not look very good now. I wonder if it would not be a reasonable proposal in the case of a retirement couple who have only \$5,000 or \$10,000 saved through the savings plan and insurance program, during an inflationary period not to tax the first \$5,000 or \$10,000, but where there are annuity programs going beyond that amount, they would be taxable because, as I said at the outset, these have been hard earned and good dollars which they invested and now they have to live off inflationary dollars. Is that an unreasonable question to ask, and would that not be a reasonable proposal to make on behalf of people who are retired and who do not have much in the way of savings?

**Mr. Chrétien:** We are aware of this problem and we are looking into it. We are reviewing many aspects of pension plans and the problems of citizens with their pension plans. We will take note of the hon. member's representation. It is not directly related to the problem we are discussing at this time. I

[Mr. Chrétien.]

would like to mention to him that if you take a small amount of money such as \$5,000, it can be converted into an annuity, but there is a \$1,000 exemption a year on it. So if you have converted that \$5,000 into an annuity, it is likely you will have to pay less in payments at 70 years of age, and in fact it would not be taxable because of the \$1,000 exemption. I know there is some problem with larger amounts of money, but inflation is a problem which faces everyone in the country and it is not a particular problem of the retired people.

**Mr. Friesen:** What the minister is saying is that if that amount is converted into an annuity, obviously they can escape further taxation at present. My point is that people in this position need some liquid capital and it should be accessible to them. They should be able to have at least a small lump sum available to them, and that should escape taxation.

I want to draw the minister's attention to a related problem arising out of Canada Savings Bonds. I received a letter some time ago from a constituent, which I would like to read to the minister so that he can understand the problem which arises for people who plan for their retirement years and face the problems to which we have already alluded. My constituent, Mr. Schlichter, writes the following:

In November, 1969, a few months prior to my retirement, I purchased Canada Savings Bonds, S.24, in the amount of \$20,000.

This particular issue was the first one to feature compound interest in the form of bonus coupons payable at maturity provided all coupons remained attached.

On November 1, 1978, series S.24 will mature and I have calculated that the interest due to me, at that time, will be \$22,300.

My taxable income for the year 1975 was \$1,397.20, for 1976 \$919.84 and 1977 will be about the same. Adding \$22,300 to this and the income tax payable will become quite substantial.

It is my intention to purchase an income averaging annuity contract which not only would reduce the tax payable to a more manageable level but would be a great help to me in coping with present day inflation.

In order to determine whether or not this payment would be considered as "qualifying income," I went to the taxation office in Vancouver and put the question before them. The spokesman there referred to Information Circular No. 72-21 dated August 29, 1972 which however does not specifically mention such income.

Perhaps the minister's officials could make note of that. The letter goes on to read:

His personal opinion was that this payment could very well qualify and as the situation would not arise until the taxation year 1978, an amendment covering it might be forthcoming.

That, basically, is my question: Will there be an amendment forthcoming? The individual goes on to say:

I then decided to write to Ottawa for a ruling whether or not I can go ahead with the plan to purchase the annuity for a term of ten years or less. Perhaps there is even a better suggestion and if so I would, of course, be happy to hear about it.

Not knowing to whom to write makes things difficult and I would appreciate it very much if you would be good enough to pass this letter along to the appropriate department or person.

What better place is there to do it than here where we have the accumulated wisdom of the minister and his officials who can give us an immediate and quick answer and a solution to Mr. Schlichter's problem? Will there be an amendment that will take care of this problem?