

Now section 110B is amended so as to apply also to non-resident general insurance companies' operations in branch form in Canada.

There are undoubtedly other things on the insurance side of this bill I have not touched upon, but I thought I would hit the highlights and give you the scheme of the bill.

After having dwelt on the heights of life insurance operations and taxation, may we now come down to a more mundane area. A number of amendments in this bill were referred to in the budget.

**Hon. Mr. Grosart:** Before the honourable senator concludes his illuminating remarks on the life insurance aspect of the bill, would he care to comment on the status of an existing life insurance policy after October 22, 1970: (a) where it is terminated only on the death of the policyholder; and (b) where it is surrendered? I ask that question because the minister has said this bill is not retroactive, and yet there appear to be some retroactive aspects.

**Hon. Mr. Hayden:** No, it is not retroactive. If there is a death, the policy terminates and the amount is paid, there is no problem of taxation there. In using the word "termination," I take it you are using another word for "surrender."

**Hon. Mr. Grosart:** I was taking the two cases, termination and disposition, and what appears to be a retroactive feature is the status of the policyholder in respect of the payment of income tax when he surrenders or disposes of the policy after October 22, 1970.

**Hon. Mr. Hayden:** No, you cannot say that because that happens. Of course, we are now in 1969 and you cannot make an earlier disposition than June, 1969. You are not interfering with the policy as it has grown. I referred to this anniversary date for valuation; that valuation date is two years from October 22, 1968, and you would have what the accumulations have produced in the way of increased cash surrender value at that time. On a disposition of that policy any time thereafter, the proceeds of the excess in your realization on the policy would be the excess over that cash surrender value. So, to that extent, it is not retroactive.

**Hon. Mr. Grosart:** It is a little bit retroactive.

**Hon. Mr. Hayden:** Well—

**Hon. Mr. Grosart:** A few months.

**Hon. Mr. Hayden:** Yes, but who is going to argue over a couple of months?

Now may I go into the more general field? The first amendment I want to refer to is the social development tax which added a new Part IB to the Income Tax Act, to be found in clause 27 of the bill, at pages 45 to 47 of the old bill and page 49 of the new. This has added a new section 104B (1) and (2), and imposes a social development tax on individuals who are residents and as well on non-residents who are employed in Canada or have income from carrying on a business in Canada. The tax is the lesser of 2 per cent of taxable income determined under Part 1, or \$120. This applies to 1969 and subsequent years.

In the way in which it has been introduced and applied, this tax will not affect provincial revenues. In other words, there will be no sharing of this tax under any agreement between the provinces and the federal authority. The tax will add about \$440 million to the budgetary revenues for 1969-70. It will not affect Old Age Security tax revenues. It will be an integral part of the personal income tax.

This tax is intended to cover expenditures of a social development nature, presently taken care of out of the general revenue system, such as hospital insurance, for which Parliament now provides over \$600 million per year, excluding the value of special tax rebatement granted to Quebec. There are many other social development expenditures of direct benefit to Canadians, but not as universal as this. Contributions to Medicare, as and when it is fully operating, are part of this social development program.

Some additional reasonable and identifiable contributions toward cost of these major social security programs should be accepted.

I must say that I am a 100-per-cent subscriber to the principle of levying in a special and individual way an amount of tax to be collected from the people in relation to the social development that takes place, and that should no longer than necessary be paid out of general revenues, on the basis that the tax means that people with low incomes have a smaller amount to pay.

**Hon. Mr. Croll:** Comparatively, the people with large incomes have only a minimal amount to pay, and the maximum of \$120 begins at a comparatively low bracket for them.