

Under current rules, it is the recipient of RRSP funds who is taxed when the planholder dies. It is now proposed to include the RRSP funds on the planholder's final income tax return.

I want to ask the minister whether or not that statement is true?

Mr. Chrétien: I think the hon. member for Welland described very well what an RRSP is. It is not a scheme to avoid taxes but rather a scheme to ensure we have enough revenue when we retire. The creation of RRIF under this bill is to give greater flexibility to people. At present, when a person reaches the age of 71 he has two choices: he can either cash in his RRSP on which he has to pay the same level of tax as on his income that year, or he can buy a life annuity. Now we permit him to buy RRIF which will allow him to average out the money over a period of years and pay taxes accordingly.

We are not changing anything when the RRSP is in the hands of the holder or when the money goes to his spouse. The change occurs only when it goes to a third party, such as children, at which time it is taxed at the same rate as the original holder was taxed prior to his death. We recognize that there are some problems here and we are willing to consider them. However, with the permission of the committee I should like to read the technical explanation which sometimes, although not always, clarifies the problem.

The new alternatives for RRSP funds, that is, the RRIF, and the term annuities, require the government to reconsider the alternatives available to heirs of a deceased annuitant under RRSP. These two new alternatives for retirement income, and the extension of the guaranteed period for life annuities, mean that much larger amounts will be passed on to heirs than under the existing system. Now the holder has to cash it or buy a life annuity. The existing system permits only life annuities with the guaranteed term being not in excess of 15 years. Under this system the passage of RRSP funds between generations of untaxed funds was minimal.

The RRSP mechanism is to permit our citizens to provide for their retirement and the retirement of their spouses. It is not intended to encourage the creation of estates. Therefore, the decision was taken that the tax benefit enjoyed by an RRSP annuity holder during his life should be accounted for on death, except to the extent that the benefits accrue to his spouse. This is in accord with the general scheme in the Income Tax Act which allows property to be transferred on a tax free basis to a spouse, but taxes transfers of property to others.

I want to explain again what I said before and what I read. The RRSP scheme is to permit a person to accumulate funds for the time when he retires. It is not, as the hon. member for Provencher led us to believe, a way of accumulating wealth to be passed on to children or to third persons. It is a tax break which a person receives during his life so that when he retires he can cash it in and pay tax on the money, and at 71 years of age again he can either cash it in and pay tax in one shot or buy a life annuity. Now there is flexibility, but we do not want a system to develop so that RRSP will become a way to avoid taxes. It is not designed for that. It is a way of accumulating

Income Tax Act

assets, and the tax will be paid at the time of retirement. That is why we must make a distinction between an estate and money accumulated through RRSP.

Mr. Epp: Can the minister now answer my question?

Mr. Chrétien: I think that in the very good explanation I gave I must have given an answer to the hon. member's question.

Mr. Epp: My question was as follows: if a policyholder dies, is the amount of the policy calculated as income on the last year that that person filed income tax?

Mr. Chrétien: Yes, if it is somebody other than the spouse.

Mr. Epp: That is what I wanted to know. The minister was not clear about the two terms. I am wondering whether we are not simply arguing about words. On one hand the minister says it is an asset, and on the other hand it is not accumulated wealth. He cannot have it both ways because an asset is accumulated wealth.

The point I want to bring to the minister is this: he says that so long as the fund is transferred to the spouse there is no additional tax. He also says that it cannot be transferred to a third party, which I take to mean children. However, in the case of a common accident in which both the policyholder and his or her spouse are killed, and there are two dependent children left, who is the beneficiary? The minister is now saying that under his plan the dependent children are the beneficiaries but that the government will now tax them at a higher rate than when his budget was passed? Is that correct?

Mr. Chrétien: In studying this problem we have come to realize that we are faced with a problem so far as dependent children are concerned. It is a problem which I would like to consider. The RRSP is so designed that it can be passed on to the spouse tax free, but if it is to go to grown, independent children, it is not an estate. If RRSP has been accumulated and there are still dependent, minor children in the family, this is an aspect which I should like to consider to see whether we should not make a distinction between dependent, minor children and independent children or third persons. This is a point that has not escaped us, but today we are not in a position to give an answer on it. Also, we have not received representations from people who are concerned about this and we would like to discuss with them some aspects of it before we come to a solution.

Mr. Epp: Perhaps we are making some progress now. At least we have an agreement in principle. We are on the same wavelength, and it is understood that, while the spouse can be the direct beneficiary, it is minor, dependent children who are penalized very heavily. I think that it is the role of any Minister of Finance and of all of us in the House to ensure that, if a father or mother had made provisions for their minor children, the state would not tax that benefit away and make those children dependent on the state. I keep stressing this point because it is such a fundamental issue in society that a