

*Income Tax*

the figure from the Minister's officials of \$75 million. I took that as being an average of \$75 million a year. I assume that is not a total of \$75 million. I see one of your two wise men nodding his head in the affirmative, so I assume that is correct.

In the first year, 1983, I would assume that figure would be closer to 75 cents than \$75 million. Of course, it would go up a bit. I checked again with the president of one of the major life insurance companies and told him that I wondered how the Minister's Department could come up with any figure that would hold water. I am of the opinion that the \$75 million amount was drawn out of a hat, or someone used a Ouija board or spun a wheel of chance to get it. I do not think the Minister could produce anything to verify that amount.

I want to re-emphasize that policies taken out prior to December 2, 1982, or whenever it is, are not affected by the new legislation. Seventy-five per cent of the new policies which are being sold now and in the future I am told are term policies which have no cash value, and therefore do not enter the picture.

There is another 30 per cent of policies which are whole life policies, limited life policies and investment policies. Of that 30 per cent, only 5 per cent will qualify, or in other words be subject to tax. I just want to point out here that the Minister and his departmental officials are going to all this trouble on the basis that they will only be able to collect from 5 per cent of the policyholders. Only 5 per cent, give or take a few, will even be subject to tax. Again, let me repeat what I said. It is in the years to come that the tax will be collected. I say you will get 75 cents this year—and I may be on the high side—but in subsequent years some of these policies will be subject to tax. But with all the problems of collecting the tax, I am curious whether the Minister thinks it will be worth it.

I would like verification of the \$75 million. I presume the Minister's officials must have some idea as to the percentage of policies on which the Department feels it will be able to collect. Am I very far out in my calculation?

We certainly want to see this legislation get through. I am aware also that the insurance companies have great reservations about annuities, pensions and so on; but that is another story. I think the Minister's Department has told them that down the pike that question will be discussed along with the White Paper on Pensions, perhaps through the Department of National Health and Welfare or the Department of Finance. I would appreciate the Minister's comments on that as well.

• (1120)

**Mr. Cosgrove:** Mr. Chairman, when I made reference to the \$75 million which would be forgone revenue to the Government, the Hon. Member may recall that I made reference to a *Financial Post* article dated July 4, 1981, which was headed "Big Sums Go Into Deferred Annuities". I made reference to some of the features in that article, for example: "The smart money is moving into deferred annuities. Investments that earn today's high interest rates and let income accumulate compound and tax defer to 10 or 20 years or more." I was addressing the issue of annuities. If it was not clear, my reference to the \$75 million was directed to the use of deferred annuities.

The \$75 million referred to the amount of forgone revenue with respect to annuities.

It arose as a result of our dealing with Clause 4. We then had to bring in all of the other Clauses because the principle applies equally to annuities and life insurance policies that have an income or investment build-up where there is money left over after buying protection. In short, with respect to the figures used by the Hon. Member as far as life insurance policies are concerned, I would not quarrel with him. I would not quarrel with the 75 per cent of term policies. The fact that only 5 per cent of life policies sold in the future might be subject to the three-year accumulation amendment in the Clause before us is correct. But it was not that provision that gave rise to the tax saving.

Second, the Hon. Member is correct that there is no intended income recovery, not only for 1983 but for 1984. It is a three-year accumulation provision. That three years gives a grandfathering break-in period to people purchasing those contracts now. Therefore, the realization of revenue to the Government would not occur until the third year.

**Mr. Darling:** Mr. Chairman, the Minister is now saying that the Government will recover absolutely nothing for two years. I am wondering why they are going through the birth pangs and criticism for two years when they know that in two years they will be sitting on this side of the Speaker's chair.

On Tuesday, I also brought up the question of the single-premium life insurance contract. This is a contract that is no longer eligible. Naturally, it can be sold but it will be subject to tax. As I mentioned previously, there are certain circumstances under which this contract is ideal. I will admit that a single-premium contract is not sold to the average blue collar or office worker, but to someone who wants that particular insurance for a specific purpose.

One of the things that I pointed out was that an individual who has a substantial estate and knows that it will be subject to succession duties will try to plan. He will realize that the Government will take a good deal of his estate because it is worth so much. That is the tax system. He realizes its merits. The Government must get its money where it can. The Hon. Minister is a lawyer but is probably too busy now to be advising too many clients. However, a good many of them would be coming to him and asking, "What do I do when I die?" A will is arranged and the value of the estate is known. However, it is very well known that the family will not get it all, that Her Majesty in right of Canada and the Department of National Revenue will come tapping gently at the door.

• (1125)

I suggest that a single-premium insurance policy be purchased for \$200,000. That would be liquid cash which could go immediately to the Department of National Revenue, and would not tamper with other assets, such as a home, perhaps real estate investments or even stocks or bonds. I ask the Minister, is there not some merit to that proposal? I ask him