

*Adjournment Debate*

[English]

NATIONAL REVENUE—PRINCIPAL GROUP BANKRUPTCY—  
PAYMENT OF TAXES BY INVESTORS/REQUEST THAT DEMANDS  
FOR PAYMENT OF TAXES BE STOPPED

**Mr. Simon de Jong (Regina East):** Mr. Speaker, I rise today to elaborate further on a question I posed to the Minister of National Revenue (Mr. MacKay) last Tuesday. It concerned the actions of Revenue Canada in taxing those investors in the Principal Group, financial institutions which went into receivership last June.

● (1820)

The Government is attempting to collect taxes on interest which those investors and depositors would have earned but, in many cases, never actually saw. There were a variety of investments and types of deposits involved. Some were on an accrual basis and some had received their interest but it was left in deposits or rolled over into new investments.

It seems to me that there is unfairness here. Many of these depositors are older, retired people who had deposited all of their life savings in these institutions. Many of these people are without means. For the Government to ask them to pay taxes on money that they never saw is, I think, unfair.

I suppose that within the strict confines of the Income Tax Act bureaucrats would say, as the Deputy Minister of National Revenue is reported to have said, that the fact of the bankruptcy of an investment company is no excuse. That seems a little hard-hearted. I think it is basically wrong that the Government is attempting to collect taxes on money which people never received.

I recognize that there are some problems with this case and the Government will have some problems changing some of the rules and regulations, but it needs to be done in terms of fairness.

In the last few years we have seen various financial institutions go bankrupt. People have lost their money, especially those who are not fully covered by the Canada Deposit Insurance Corporation. I think there should be some special provisions in the Income Tax Act that taxes to be paid on interest earned before the institution went bankrupt be deferred until the company is properly wound down and the investors know how much they will recoup. If they recoup their interest as well as their original investment, the Government should tax at that time.

There are many instances of deferral of taxes in this country. The common estimate now is of some \$20 billion in deferred taxes. It would certainly be fair if the Government did not proceed to attempt to collect taxes on interest earned which the investors never received.

For the Government to say that eventually the investors will get back the money they pay in taxes is beside the point. It will take at least two or three, and perhaps four or five years before the company is properly wound down and the investors know

how much they owe or how much the Government will be able to pay them back. As I mentioned before, many of the investors and depositors are older, retired people on fixed incomes who cannot afford, in essence, to lend the Government money now which they will get back in three, four, or five years.

The responses which I have received from government Members and which my Leader received on Wednesday encourage us to hope that perhaps this week the Government will announce that it has found a way to ensure that these people will not have to pay these taxes. I hope that when the Government's spokesperson responds to my presentation this evening she will have some good news for us all.

[Translation]

**Mrs. Lise Bourgault (Parliamentary Secretary to Minister of Consumer and Corporate Affairs):** Mr. Speaker, I wish to make a few comments regarding the fiscal implications of the Principal Group failure. It has been said, among other things, that taxpayers would have to pay tax on income from interest they never received.

Allow me, Mr. Speaker, to say that those individuals who elected to use the cash accounting method and did not receive interest payments, paid in cash or credited to their account before it was blocked, will not have to pay tax on accrued interests. However, those who did receive interest payments, paid in cash or credited to their account, will have to include that amount on their income tax return. They are required to do so by the existing Income Tax Act and the Minister of National Revenue, for his part, must enforce the Act.

On the other hand, people who have calculated their revenue according to the accrual method of accounting and whose investment contract with the Principal Group had not expired when it was frozen will be allowed, once the whole matter is settled, to deduct an amount not exceeding the interest already declared.

Present legislation provides a certain relief for taxpayers in that situation, depending on the circumstances.

We are nevertheless deeply concerned about the difficulties facing some investors. Some of them could indeed lose a big part of their capital and they realize that they have a tax obligation regarding the interest reinvested in the Principal Group.

So you will certainly understand that it is a very complex situation resulting from the collapse of a group of companies with a complex structure and widespread ramifications. Although the questions put in this House are straightforward, the problem is not. The officials of National Revenue-Taxation and of the Finance Department are compiling facts and evaluating the implications of certain means of providing relief. Meanwhile, both departments are working together on that subject, examining which means might be appropriate in the circumstances. And I can assure the Hon. Member that a response is indeed forthcoming in that case.