Income Tax

[*Translation*]

Mr. Dupras: Mr. Chairman, I should like to put a question to the minister just to check one point.

I should like to know whether, considering the erosion of the dollar the minister mentioned two minutes ago, there is a possibility that this amount of $4,000 might be increased to $5,000?

Mr. Turner (Ottawa-Carleton): You know, Mr. Chairman, indexing may be a contagious concept, but it is not that contagious. Only some exemptions have been indexed, such as the old age security pensions. For the time being, I believe Parliament is willing to fix the amount from time to time through specific amendments brought before the House.

Mr. Dupras: I thank the minister for his explanation.

● (1500)

[*English*]

The Chairman: The hon. member for Kingston and the Islands.

Some hon. Members: Leader! Leader!

Some hon. Members: Hear, hear!

Miss MacDonald (Kingston and the Islands): I should like to address a question to the minister. A number of those who wish to contribute to an RRSP will do so by mail and the deadline for taking advantage of the tax benefits for 1974 is February 28. Because of present postal uncertainties it is doubtful whether some applicants will be able to take advantage of the plan. Would the minister consider extending the deadline so that mail distribution problems will not prevent taxpayers from taking advantage of this concession?

Mr. Turner (Ottawa-Carleton): When the hon. lady refers to mail distribution problems I trust she is spelling the first word "m-a-i-l". I wish to assure her that the welcome we gave her on this side was not an example of patronizing chauvinism. It was to equalize the welcome we gave this morning to the hon. member for Brome-Missisquoi.

Mr. Nowlan: Your turn is coming, John.

An hon. Member: Let's give a cheer for the leader.

Some hon. Members: Hear, hear!

Mr. Turner (Ottawa-Carleton): I want to say to the committee I probably deserved that! I might tell the hon. member for Annapolis Valley that I shall be in his riding in a few weeks and that I shall have a few things to say about him when I get there. As to the question which was directed to me, I shall take up the matter with my colleague, the Minister of National Revenue. I think the hon. lady has a point.

Mr. Stevens: I have a question dealing with the Registered Retirement Savings Plan. The minister has undoubtedly received letters from those who are experiencing frustration over the circumstances they encounter when they are called upon to take out annuities. A person pays in for a number of years. Then, as he approaches the age of 71, he must shop around to find an insurance company to arrange for the annuity he will draw for the remainder of his life. Some of the people affected are now finding that the annuity is much less than they had anticipated. But they must either withdraw the money and pay the full tax on it or, alternatively, leave it in the hands of an insurance company which, they believe, is unwilling to pay them an equitable annuity.

An Ontario taxpayer raised this question with the minister in a letter written, I believe, on January 24. He says the government of Canada passed a law some years ago under which a worker was allowed to put aside from his earnings a stipulated amount in a retirement savings plan, tax on which was deferred. The writer of the letter went to say that he thought this was a useful proposition, acted accordingly, and has accumulated $12,000. But here is where the plan went sour. He says:

> I have to put it into an annuity before I am 71, next May 3, 1975. I have called for bids from insurance companies and the best bid I got was $128 a month guaranteed for ten years, or, if I live longer than 81, until death. I will draw a total of $1,544 a year. By putting $12,000 in debentures at the going rate I could draw $1,290 a year and still the $12,000 would be intact for any emergency such as prolonged sickness.
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> I am told my $12,000 would double itself in less than eight years and I would have to live to be 130 to use up all the $12,000 at the going rate of interest. If I draw the money out and invest it in debentures I will have to pay income tax on the $12,000 in one year. The insurance company knows this; that is where the rip-off is. If trust companies could compete the story would be different because of competition.

This man goes on to say he is at a loss to know what to do. May I ask the minister whether he has received complaints of this type and whether he has any advice to give to people in this situation? Has the department considered authorizing some program by which a taxpayer on retirement could obtain the full benefit of the money put aside and not be obliged to go into what he might consider to be an inequitable annuity scheme?

Mr. Turner (Ottawa-Carleton): A retirement savings plan is really related to a pension plan. Since the contributions are deductible the capital amount is taxable, when taken out in a lump sum. The taxpayer can either withdraw it in a lump sum, or he can turn it into an annuity in which case he is only taxable on the annuity receipts. Unless we were to look at the entire pension field we would have to leave RRSPs as they are. We are fully aware of the situation to which the hon. member has referred, and we have received a good deal of correspondence to the same effect as the letter he quoted.

Mr. Stevens: Would it not be possible to allow a person caught in this situation to set up a trust with an appropriate trust company, and operate a self-administered plan under which the money would remain intact while the individual got the benefit of realistic interest rates?

Mr. Turner (Ottawa-Carleton): The concept of a self-administered fund differs, of course, from the concept of a pension fund. That is where we would find ourselves in trouble from an administrative point of view. Without minimizing the situation to which the hon. member has referred, I say again that I cannot cure it unless we look at the whole of the pension field.