ensure that an appropriate portion of the income of insurance companies with international operations is attributed to Canadian operations and hence subject to tax in Canada. On the whole, the industry recognizes the validity of the reasons that have prompted these proposals and finds the proposals themselves acceptable.

6.81 The one proposed measure that has generated strong opposition from the industry is the proposal to impose a 15 percent tax on the investment income accruing to fund liabilities with respect to whole life insurance policies. Under existing tax provisions, this income is exempt from taxation unless it is received as a result of a policy loan or upon surrender of the policy. Spokesmen for the life insurance industry have argued that the tax, while payable by the insurers, will in fact be passed on to the policy owners and their families. The industry estimates that the tax will cause an increase of 10-20 percent in premiums for non-participating whole life policies or reductions of 20-40 percent in dividends for participating policies.

6.82 The position implicit in the White Paper is that life insurance policies are a type of savings instrument, and that making income from such policies tax exempt creates a bias in favour of insurance.

6.83 Although we view life insurance policies as consisting of a protection as well as a savings component, we are nevertheless in substantial agreement with the White Paper position in that the non-taxation of the build-up in insurance policies creates a bias in favour of insurance. We do not view such a bias, however, as an undesirable effect. There inheres a significant social benefit in any policy that encourages people to provide for themselves or their families, rather than relying on public welfare for their security.

6.84 Given the inefficiencies normally associated with government redistribution mechanisms, subsidizing life insurance policies may in fact be a less costly means of providing social assistance. We also agree with the argument of the life insurance industry that the 15 percent investment tax is in fact a tax on policy holders rather than on the life insurance companies. As such, it is an inequitable tax, since it applies at the same rate to low and high income policyholders alike.

6.85 23. **We recommend that the Government not proceed with the 15 percent insurance investment income tax.**

6.86 To recap, special provisions in the *Income Tax Act* have enabled financial institutions to pay taxes at rates significantly lower than other sectors. We think