

Income Tax Act

Two or three paragraphs in which examples are given follow. I do not propose to take up the time of the committee by reading the examples but I have checked them and they seem to be valid as I understand the legislation. They make it clear that the tax on a fund the planholder might leave, say, to two children, is much greater under the new arrangement than under the old.

The whole purpose of tax legislation in connection with RRSPs was to encourage people to put money away to add to their retirement income. Along with that goes the right of such a planholder to leave any funds he may have acquired to his spouse, his children or other heirs. Now the minister is changing the taxation rules to make the tax more severe than it would have been had the planholder taken his money out before he died, which seems unfair.

The document refers to a few other matters. One is under the heading of fixed term annuities; another is in connection with the fact that rules governing the registered retirement income fund have not yet been produced. Then there is a complaint about the age at which an annuity might begin; it has been the rule that an annuity must be taken out not later than just before the planholder was 71. Now the additional rule is that no annuity can commence before age 60. I should like to have the minister's comments on these points, but the one which appears most important to me is the provision which would tax on the death of a planholder any funds he left in such a way that the value of what he leaves to his heirs in that year is seriously reduced.

It seems to me the minister has done something without thinking it through. I am sure he has received more correspondence on the subject than we have, and I hope that today he is in a position to offer some correction or assurance that the matter will be looked into. I might add that this is why I was anxious to arrange our business in such a way as to enable the committee to deal with this clause, clause 34, which begins on page 37. The offending parts of the clause are between lines 20 and 30 on page 42. I hope the minister will tell us what he intends to do to meet these just complaints.

Mr. Chrétien: I thank the hon. gentleman for giving me occasion to say something about this clause. Earlier in this debate the hon. member for Assiniboia raised a question with regard to it, and I have received representations on the matter from many members of parliament, credit unions, and elsewhere.

There is a problem here and I do not think I am in a position to find the proper solution right now. This is an arrangement under which we are seeking to give more flexibility to a person who retires. Previously he had to transfer his RRSPs, either in cash or in the form of a life annuity, at age 71. We are now establishing a new system which will offer more flexibility. At the same time, there will be an accumulation of funds. We want to help the retired person and his spouse to benefit from accumulative savings through RRSPs for the rest of their lives, but we have to take into account the effect on beneficiaries.

The department has received a number of representations on this complex issue, but I have to say it is my intention to examine the subject further and, after discussion with the credit unions and others who have an interest in the matter, to find a solution. I do not believe I can correct this situation at this late stage in the bill. However, if other hon. members want to make representations to me I am willing to listen to them and answer their questions. But I am not in a position to provide the House with appropriate solutions in such a short time.

Mr. Knowles (Winnipeg North Centre): I appreciate the minister's recognition of the fact that there may be a problem which ought to be considered. This being the case, I wish he would find some way of dealing with it before the bill is passed, because once the bill is passed it will be hard to change the situation by regulation.

I agree with him that the government has to be careful to see that this means of avoiding taxation is not abused. The purpose of the RRSP set-up is not in order to enable people to save money for other purposes than retirement—to give it away, for example. But where a person puts money into an RRSP and dies before he gets the chance to put it into an annuity, he should not be considered as committing some sort of abuse. He is not trying to filch money from the treasury by dying. In such a case, it seems to me, the money he leaves should not be treated any worse as far as taxation is concerned than it would have been had he taken it out and paid the tax on it. I hope the minister will find a way to meet the pleas of the credit unions on that point.

Mr. Chrétien: As I understand the situation, we are not making it more difficult for a planholder who dies to pay the taxes he would have been obliged to pay had he decided in the same year to withdraw his funds under his RRSP. The hon. member realizes that when a person dies he has to meet other tax liabilities associated with the winding up of his affairs. There is a question regarding capital gains which come to fruition and so forth. That is an added complication, and that is why I would like to study it very carefully. In fact, we have received the letters which have been circulated by credit unions, mainly in western Canada, but what the credit unions mean is not very clear.

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This is a matter which needs some study and clarification, but we do not think that with the introduction of RRIFs we are compounding the problem of a person who has an RRSP and dies. Either you take it out or, when you die, you have to pay the tax in that year. We are not adding to the problem. If when a person dies he has other assets which are considered revenue that year, that is a different problem which could jack up a person's revenue and increase the amount of tax to be paid. However, the law has not changed. It was like that before.

Mr. Knowles (Winnipeg North Centre): Mr. Chairman, I would like to ask the minister one other question, and then I