

*The Budget—Mr. Nesbitt*

able to lend money at very low rates of interest because of the fact that there is no overhead in office expenses and because people do the work for nothing on a voluntary basis. There is also the fact that, credit unions being localized, the officers in charge know the people with whom they are dealing and they have a much better idea whether or not they are a good risk.

I only mention this in passing because credit unions are somewhat analogous to mutual insurance companies, and I point out that credit unions are not taxed. Then there is the question of co-operatives which are again somewhat similar in nature to mutual insurance companies. Co-operatives are of course taxed to a certain degree. Without going into the details of the taxation of co-operatives at any length, may I say that after their patronage dividends are refunded they have to pay a tax of 3 per cent of the capital employed at the beginning of the year, but this is a relatively small amount. It is a very low rate of taxation.

To get back to the main subject of mutual insurance companies. As most of us realize, these companies are not basically profit-making institutions but, as I have already pointed out, only a group of farmers banded together in order to insure and look after themselves. I do not think anybody would take any exception to a tax being placed on the interest from any investments that these mutual insurance companies hold. I think that is a fairly self-evident thing. The income from such investments should be taxed, but in my view the surplus of these insurance companies, with one reservation which I am going to deal with immediately, should not be taxed.

The minister may very well say that these companies do not necessarily have to pay a tax on their surplus because it can be returned to the policyholders in the form of a dividend. But section 117 of the Ontario insurance act—and I believe the situation is much the same in the other provinces—sets out that such companies, depending on the amount of policies outstanding, must have a surplus of a certain size in order to be in a position to refund to the policyholders. These figures have been outlined in some detail by my colleague, the hon. member for Perth (Mr. Monteith), and as they have already been set out I will not take up the time of the house to deal with them again. But I should like to mention in passing that the amount of surplus that has to be set aside before refunds can be made is related to the amount of insurance policies that have been underwritten.

I would agree that any surplus arising after the figure set by the Ontario act has been

[Mr. Nesbitt.]

reached probably should be taxable, but it is very unfair to tax the surplus of a company until this figure is reached. Such a surplus is in the nature of a reserve. Its amount is laid down by the provincial government concerned and the companies have no choice but to observe the law. This reserve is set up to protect the policyholders and until the amount of surplus or reserve set is reached none of the surplus can be refunded by the company. I should like to suggest that mutual fire insurance companies and mutual wind insurance companies not in a position to legally make refunds should be free of taxation. Otherwise it makes it very difficult for these companies to build up the surplus required by the province in order to be in a position to refund.

For example, a company in my riding increased its policies by \$10 million between 1950 and 1952. Accordingly, under the terms of the Ontario insurance act it had to increase its surplus by \$60,000 before the company could make any refunds to the former policyholders. During this period from 1950 to 1952, the surplus was increased by nearly \$50,000 but \$17,000 of this had to be paid in taxes. During this period, therefore, only \$33,000 was actually added to the surplus. I point out that taxation at this rate makes it very difficult for such companies to reach the surplus necessary before any refunds can be paid.

I cannot understand why the minister has made this proposed alteration in the Income Tax Act. It certainly discriminates against the poorer insurance companies. The richer companies, who have already established the necessary surplus under provincial legislation to enable them to pay refunds, can do so and they do not have to pay any further taxes of this type at all. All these companies have to do is to pay out any future surplus in the form of refunds. This proposed amendment, as just pointed out, makes it extremely difficult for the poorer companies to build up the surplus to the point where they can make refunds.

This situation has been aggravated by the economic conditions prevailing in Canada during the last few years. Inasmuch as building and replacement costs have greatly increased during the past years many people have increased their insurance policies, and the amount of insurance underwritten by these companies has greatly increased, thus increasing the surplus they must have before any refunds can be made.

With all respect, the tax appears like a spite tax imposed by the minister as a result of the supreme court decision last May which enabled these companies to get around the