

Income Tax

annuities as sold in Canada by Canadian life insurance companies to Canadians is a dead issue. No longer will they be sold. Nobody will buy them because they become taxable on an accrual basis. The only way an annuity earns is by accruing income and adding income to capital and capitalizing it, and so on. It is quite true you pay the tax on the income portion accumulated in the annuity as you draw out the money in the normal course. But now the system is that you pay the tax every three years at least, and there would be no way a person could invest in that type of certificate.

I suggest also to the Minister that cumulative GICs with trust companies are no longer a viable investment unit unless the cumulative period was less than three years.

I suggest to the Minister that single-pay premium life insurance policies that might, for one reason or another, be purchased by someone who had a block of cash and wants to protect an interest for a long period of time is no longer a viable method of protection because the single-pay policy causes the owner of the policy to be subject to tax every year or every three years on the imputed earnings behind the policy without receipt of income with which to pay the tax. I suggest to him that that form of long-term investment has been forced out. In other words, while these methods of investment may have been available as tax deferrals, at least the Government was getting taxes from the people who held these investments as the interest or other amount was paid out on the investments. Now that the Government has become so greedy as to collect its taxes on an annual accrual basis, it has, in effect, squeezed the neck of the golden goose so hard that there is no life in the goose at all. For all practical purposes it has wiped out accumulating GICs, accumulating bonds, accumulating deferred annuities and single-pay and accumulating investment type insurance policies. It has wiped out that source of investment opportunity for Canadians in Canada.

• (1610)

The Minister will know that we have pointed out that if Canadians want to invest in those type of instruments, there is no problem. They can go offshore to the United States or Great Britain. They can do this with a type of trust agreement, money fund or any number of ways. They are only prevented from doing it in Canada.

What studies has the Government done to determine what it really expects to accomplish with these Clause? What additional revenue does it really expect to receive? Having squeezed off the revenue source, is it not likely that the Government will receive no revenue? All it has done is to drive capital out of the country. Will the Minister tell us what revenue source the Government hopes to have as a result of these changes, bearing in mind that it has squeezed the neck of the golden goose so that there is no possibility of its even breathing, let alone laying eggs?

Mr. Cosgrove: I believe that the Hon. Member's analysis is too narrow. His question is not as broadly focused as that of his colleague, the Hon. Member for Calgary West, who pointed out that one of the objectives of the tax policy certainly is a legitimate concern for job creation.

While the Hon. Member for Mississauga South may have a hang-up about interest-bearing securities and giving a preference to that kind of long-term investment, I would invite him to consider the same question that his colleague from Calgary West asked us to consider. Is that good for the mix that we would want in the economy, those investments in which we are trying to interest people who have funds available? Is a long-term debt security instrument, which has a preference over other types of investment opportunities such as shares and stocks necessarily the best thing that we should do at this time in the country? Is it the best thing to do when investment is down, production is down and the interest of small businessmen is at a low point? For example, they are not able to draw the same kind of investor interest in share or stock support for their projects.

Mr. Blenkarn: I am glad that the Minister now realizes that what we are really talking about is jobs. We are really talking about the growth of the country and investment in the country.

What we are concerned about is the way these Clauses in particular and this Bill drive out long-term capital to other countries. The people who want to invest in this way are not prevented from doing so. They will not pay tax on their accumulating income. They will go somewhere else and do so without any problem.

Incidentally, the Minister said earlier that they would have to pay high-priced lawyers. Let me advise the Minister that the new round of accumulating money funds for investment offshore will now be sold in units of \$1,000. They are not large units so that the ordinary Canadian will be able to buy them offshore in competition with Canada Savings Bonds and not have to worry about paying tax on the accumulating money as he will be required to do under this Bill.

Again, in terms of real revenue, what does the Minister really believe he will get by virtue of these Clauses? Does he think, for example, that by passing this kind of punitive measure he will somehow persuade Canadians who want to invest in instruments that are banned by this punitive measure to invest in something else in the country? Does he not think, though, that they will take their money somewhere else in the world where they can invest it as they please? What kind of revenue does the Minister hope to receive in the future by a tax on these kinds of investment vehicles?

Mr. Cosgrove: Mr. Chairman, as I indicated earlier, the objective is to eliminate the drain which is a result of the deferral that otherwise would be available in these instruments, which is estimated to be some \$75 million because of the high interest rates in the last two years. That is revenue that is not available to the Government in order to meet its obligations.

I point out as well that the Bill lowers the top marginal rate, which is a policy decision by the Government to induce those in the higher income brackets to be able to use the difference between the former rate and the lower rate for investment purposes. What this Clause does specifically is to take away the privileged or preferred spot that annuities held over such