

because perchance the men may not be able to give me the answer this morning. It arises out of a letter I received a day or two ago. What is going to be the tax situation with respect to this second \$1,200. Is there an annuity official here who can answer that this morning for our benefit?

The CHAIRMAN: Would you like to answer that, Mr. McCord?

Mr. KNOWLES: The position with respect to the second \$1,200.

Mr. McCORD: I would suggest this, that I do not know—under the present income tax law I would say that it will be the same as those taken out in recent years where the interest portion only is taxable.

Mr. KNOWLES: What I would like to know is how that works out at the present time, and what would be the effect when the annuity goes higher. I understand the Department of National Revenue leaves it to your department to work the thing out.

Mr. McCORD: I do not think there is any limit to the tax end of it.

Mr. KNOWLES: Is it on a percentage basis, or how is it worked out?

Mr. McCORD: Perhaps Mr. Fletcher could answer that.

Mr. KNOWLES: Would he do that for us?

Mr. FLETCHER: Mr. Chairman, I can answer that.

The CHAIRMAN: All right, if you will.

Mr. FLETCHER: With regard to annuities sold today we are bound by the terms of the Income Tax Act. We merely supply the figures and the Income Tax Act imposes no limit on how much the annuitant may have. They just decide with respect to the annuity benefit that it shall be divided by formula into capital and interest. The interest portion is income taxable, as income, but the \$1,200 limit on annuities has nothing to do with it. It does enter into the picture. The same exemptions apply as applied to the old contracts. There is no reference to what is now being sold.

Mr. KNOWLES: What is that formula? Is that a complicated answer?

Mr. FLETCHER: No. The Income Tax Department has said, take the expectation of life according to the 1937 standard annuity table and divide that into the value of the annuity which says, in effect, you will get back each year part of your principal, and the difference between that principal and your total annuity payment per year is interest; that is, if you are getting \$1,200 a year annuity, the formula says that \$900 of that is capital and \$300 is interest and is taxable as income. If you are drawing \$1,200 a year now it provides for a tax on \$300.

The CHAIRMAN: Does that answer your question, Mr. Knowles?

Mr. KNOWLES: Yes, thank you.

The CHAIRMAN: Just before we adjourn, we have several communications from various people and I would ask that the clerk call a meeting of the steering committee at 6 p.m. today in the usual place for about the usual time.

I must thank you, Mr. Dunstall, and Mr. Foster and Mr. Mingay for the presentation which you have made to the committee today.

We will now adjourn until Monday morning next, at 9:30 o'clock.