

and if there is any money there he has to pay. I do not think we need worry about that.

The administration of the act is separate and distinct, and only develops after the law is in force. What I am stating is how the bill operates having explained the principle of taxation in the bill, that is, 15 per cent tax on investment income from the business of the life insurance company, as that is defined in the act. This is the way it is calculated. When that becomes law, the administrative section in the Government will take over and apply the law and seek to collect the proper amount of tax, based on what the statute provides.

Honourable senators, I am getting close to the end of the part of the bill that deals with the tax on insurance companies.

The next item to which I referred at the beginning was the policyholder's tax, in clause 20 of the bill. It provides for income tax on policyholders' income or income which the policyholder is deemed to have. He may not actually receive it at the time, but if it is deemed to be part of his income he has to include it for tax purposes. There is no fixed rate: it is whatever rate he is subject to, dependent on his total amount of income, and what bracket he fits into as a result of that.

As to the policyholder's income, you will find that on page 28 of the old bill, page 32 of the new bill, the new section 79D. The income is the difference between the cost base, which would be the gross premiums, less the dividends paid and what is realized. In those circumstances, that difference is the amount, if you otherwise fit into the bill, which must be taken into the income of the policyholder. If the policyholder cashes in his policy in his lifetime or sells the policy to a third person, then this difference is income in his hands.

Hon. Mr. Connolly (Ottawa West): In that year?

Hon. Mr. Hayden: In that year.

Hon. Mr. Connolly (Ottawa West): Otherwise, there is no taxation in that year in respect of that income?

Hon. Mr. Hayden: Let me answer it in this way. You mean that, under the general law, where this would be income? I can only add this, that I would think not. I am assured on that point by the fact that it has been specifically provided here that this is an income feature which is part of the income of the policyholder, that is, the difference between what he pays for a policy in gross premiums,

less the dividends and what he receives. If, in those circumstances, he sells the policy to a third person, the difference between what he receives and his cost base is income.

Hon. Mr. Connolly (Ottawa West): In that case, the policyholder himself, who engages in this transaction, would have to be advised by the company as to what is the taxable portion of the money he received. Is there a provision in the act whereby the company is required to supply that type of information?

Hon. Mr. Hayden: Well, no, I do not agree with my friend. He may get information from the life insurance company, but certainly there are certain things that a policyholder would know. He would know what his premiums were and he would know what dividends he got. I am sure he could write to the company and they would quite readily tell him. But there is a specific provision in subsection 2 of this section 79D which says that policy dividends are deemed to be proceeds of disposition.

So policy dividends become proceeds of disposition. They become taxable when you have an excess in the hands of the policyholder over his entire cost of the insurance.

Hon. Mr. Isnor: As a rule, he does not receive that. That is just allowed to accumulate and he does not even know that until he writes and ask the insurance company.

Hon. Mr. Hayden: My friend is confusing this with something else. What we are talking about now is the situation where a policyholder has a policy of insurance and sells or assigns or gives that policy to some other person. What you are thinking of is, for instance, in connection with segregated funds, which, roughly, means that you have a fund where certain assets or investments are accumulated and the earnings are accumulated in that fund, and there is an allocation, whether it is paid out or not, to the participant in that segregated fund; there is an allocation each year of a portion of the surplus or earnings of that fund, and that is income to the policyholder. He may not get it at that time, but it is income to him. If the statute says it is income, that is what it is—it is part of his income.

Hon. Mr. Connolly (Ottawa West): This act does not make that taxable.

Hon. Mr. Hayden: May I deal with segregated funds a little later?