

Income Tax

The Assistant Deputy Chairman: Shall Subclause 4(2) carry?

Some Hon. Members: Agreed.

The Assistant Deputy Chairman: Shall Subclause 4(3) carry?

Some Hon. Members: Agreed.

The Assistant Deputy Chairman: Shall Subclause 4(4) carry?

Some Hon. Members: Agreed.

The Assistant Deputy Chairman: Shall Subclause 4(5) carry?

Some Hon. Members: Agreed.

The Assistant Deputy Chairman: We will now hear debate on Subclause 4(6).

Mr. Hawkes: Mr. Chairman, we have grouped together a number of amendments to the tax Bill. One of the major consequences if this particular group is accepted is that it will become more difficult from many Canadians to prepare for their own retirement. In other words, it is an attempt through the tax system to remove the flexibility of individual Canadians in preparing for their retirement. Future generations of taxpayers will have to assume an obligation to assist people in retirement, because the tax legislation under discussion today would make it more difficult for them to prepare for their own future.

First, could the Minister tell us why the Government believes we should penalize Canadians who want to prepare for their own retirement? Why is the Government moving in that direction when it is already known that retirement problems are likely to be more horrendous in an economic sense down the road?

Mr. Fisher: Mr. Chairman, I congratulate the Hon. Member. He has hit on a core question here, one which will undoubtedly be discussed at length. In September we heard the very useful comments of the Hon. Member for Edmonton West and the Hon. Member for Ottawa Centre in the Finance Committee concerning these precise issues.

The Hon. Member is really asking us about the whole question of deferral of taxation, of using accrual rules to measure income and thereby to measure tax liability. I suggest to him, as a general answer in reply to his general question, that from our point of view accrual is the fairest way of measuring income and, thereby, of measuring tax liability.

If we were to allow open-ended deferrals, then people would end up taking advantage of those open-ended deferrals ad infinitum and defer their tax forever instead of paying it at some self-determined date. I suggest that the Hon. Member has entered into a very ripe area of debate and that, if he wants to deal with this question, he would find that transcripts of the discussion of the Hon. Member for Edmonton West and

the Hon. Member for Ottawa Centre at the committee hearings in September would be very useful guides to him.

Mr. Smith: Enlightening.

Mr. Hawkes: Sometimes Governments do things without recognizing the consequences to all sectors of society.

Mr. Smith: Not us! Heaven forbid!

Mr. Hawkes: I would like to begin by raising the issue involving charitable foundations. One of the time-honoured methods whereby individual Canadians may contribute to charities is through the purchase of some type of life insurance policy which would come due at some date in the future. The benefits of such a policy then go to a charitable foundation. A Canadian may designate a charity as the beneficiary of a policy and contribute to the policy for 20 or 30 years, let us say, with the view in mind that at the end of that time the charity will benefit. However, if this legislation passes, then every three years throughout that 30-year period, or ten times, the charity will receive a tax bill. The charity will be poorer.

Mr. Lambert: Not the charity.

Mr. Hawkes: If the charity is the named beneficiary, will the charity have to pay a tax bill at any time?

Mr. Cosgrove: Mr. Chairman, the implication in the question of the Hon. Member for Calgary West is that all forms of life insurance policies will be subject to the three-year accounting for income purposes. While that was a proposal in the section that was first introduced in the budget of November, 1981, there were subsequent amendments in June. As well, there were extensive consultations between the representatives of the life insurance industry, the Canadian Health and Life Insurance Association, and the Association of Life Underwriters, not to mention, as I am reminded, Members on both sides of the House, on the implications of the changes. The result of that was by way of an amendment to the definition of an exempt policy, which takes the policy totally outside of the rule that calls for the three-year accounting. I am led to believe by members of the life insurance industry that 90 to 95 per cent of all life policies sold henceforth would be exempt.

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The answer to the question regarding a charitable organization or any Canadian looking for two things, protection and whatever investment opportunities they see in the life insurance policy—and that is for the individual purchaser to determine—is that the option would be to purchase a vehicle that is exempt and outside the rule that requires the three-year accounting. The rule and definition for such a policy is that it is a policy paid over a 20-year payment period. The answer is to look to the insurance representatives to find an insurance vehicle that is not subject to the provision, that is designed to look at long-term tax deferral.

I might indicate that it was after months of discussion with Hon. Members on both sides of the House and representatives