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CANADIAN INCOME TAX

New York Regional Meeting

I. *Canadian Taxes on Life Insurance Companies*

In introducing increased taxes on life insurance companies operating in Canada, the Minister of Finance stated, "It [the life insurance industry] will be taxed more logically I believe than that industry is taxed in other countries, including the United States."

A. What is the rationale of the Canadian formula?
B. In what respects does the Canadian formula resemble the United States formula, and in what respects does it differ?
C. Is there any recognition in Canadian tax law of the social desirability of life insurance? Is it comparable in this with the United States law or with the law in the United Kingdom that permits deduction of a portion of life insurance premiums from personal taxable income?

MR. GEORGE C. CAMPBELL: When this panel discussion was scheduled, we thought that the actual bill would have been introduced in Parliament and perhaps passed by this time. It seems apparent that the officials of the Department of Finance, who are drafting the bill for the Minister, have found the task more difficult than was originally expected. Consequently, it is necessary today to discuss the Canadian tax law on the basis of the resolutions presented in the budget speech of October 22, 1968.

Representatives of the Canadian Life Insurance Association have made several representations to the Minister and to members of the Department of Finance. It would be very rash indeed for us today to try to speculate on how our representations may be reflected in the final bill. My remarks, therefore, will be based primarily on the resolutions as they appeared in print during October, 1968.

The basic rationale reflected in the resolutions may be considered in two steps. First, a tax will be imposed at the corporate rate on the surplus earnings of the insurance company, computed almost like the normal gain from operations, after policyholder dividends but before tax. Some adjustments may be required in some items to convert them from a statement basis to a tax basis. Second, since policyholders secure economic benefit from interest earned on funds held for their benefit, either through reduced premiums for nonparticipating insurance or through reduced net payments resulting from gross premiums less policyholder dividends for participating insurance, the Minister feels that tax should be paid on this

economic benefit. He recognizes, however, that it is impractical to charge a tax directly to the policyholder year by year, as proposed by the Royal Commission. Consequently he proposes to tax this economic benefit by a two-pronged approach set out in Resolutions 6 and 7.

Resolution 6 proposes to tax the individual policyholder directly on the excess of proceeds over cost for policies maturing as endowments and for policies surrendered for cash. This tax to be paid by individual policyholders is limited to gains accrued after budget date to avoid any retroactive tax.

Resolution 7 proposes to tax investment income in the hands of the company at a rate of 15 per cent. The choice of 15 per cent is explained on the basis that it is about the minimum personal rate of tax and that it has some status in tax law, since it is the nonresident rate of tax charged where no deductions are allowed. Nonparticipating policies in existence at budget date are free of this tax, since there is no way for the company to pass the tax on to its policyholders.

There are a number of interesting interactions among Resolutions 6, 7, and 8. The taxable income to the individual policyholder in Resolution 6 becomes a deduction from the tax base of Resolution 7. The company pays permanently the tax on the interest income for policies that terminate by death. The final tax paid under Resolution 7 is a deduction from the tax base under Resolution 8, and the final tax base under Resolution 8 is a deduction from the taxable income under Resolution 7. This interaction requires the solution of two simultaneous equations in order to determine the tax. The interactions between Resolution 7 and Resolution 8 are such that, when the taxable gain from operations is greater than the taxable investment income before interaction, the tax becomes simply a tax on the gain from operations at the corporate rate, and Resolution 7 cancels out. If the taxable gain from operations before interaction is less than 15 per cent of the taxable investment income, the tax base for Resolution 8 cancels out and the tax becomes simply 15 per cent of the taxable investment income.

In their meetings with the Minister, representatives of the Canadian Life Insurance Association have presented strong arguments that policyholders cannot secure the economic benefit of interest on the funds held for their benefit except by paying expenses inherent in the insurance contract and paying the premium taxes imposed by the provinces. Consequently it was argued that insurance expenses should be a deduction from Resolution 7 taxable income and that premium taxes should be a credit against Resolution 7 tax. It remains to be seen to what extent these arguments will influence the final bill when it emerges.

Representations were made also that a life insurance company cannot

operate without some surplus above statutory liabilities. These arguments stressed the long-range nature of life insurance contracts and of life insurance investments and the necessity for providing for fluctuations not only for catastrophic claim situations but also for covering substantial drops in the statutory values of long-term investments, such as the current drop due to higher interest rates. It was argued that perhaps 6 per cent of the increase in actuarial reserves should be allowed as a deduction from Resolution 8 taxable income, subject to some maximum limit and subject to recapture when and if ultimately paid out to shareholders. Again it remains to be seen what emerges in the final bill.

The proposed Canadian Resolution 6 tax, to be paid by the policyholder at maturity as an endowment or at surrender, is exactly the same as the United States formula, except that the Canadian tax will be paid only on the gain accruing after the budget date in order to avoid retroactivity.

The Canadian Resolution 8 tax, which imposes a tax on the company based on the gain from operations, closely parallels the gain-from-operations approach of the United States law, except that the Canadian proposal does not provide any deferral until policyholders' surplus is transferred to the shareholders' account, as provided by the United States law.

The Resolution 7 Canadian proposal has some similarity with "taxable investment income" of the United States law in that they both provide something in the nature of a floor beneath the tax. A company making no profits at all from nonparticipating business, or paying enough policyholder dividends that it has no retained surplus from participating business, would still pay the 15 per cent tax under Resolution 7. In the United States law the taxable investment income operates only to restrict the deductibility of policyholder dividends and retrospective rate credits, which makes it a floor beneath the tax for companies doing participating business but not for companies doing strictly nonparticipating business. In this respect, the Canadian law avoids the discrimination between participating and nonparticipating insurance that is inherent in the United States law. The Canadian law did provide that nonparticipating insurance would be exempt from Resolution 7 tax on business in existence at the budget date, since there would be no way for the company to recover the tax by increasing the premiums on these policies. Some people have thought that this was favoritism to nonparticipating insurance, but I have argued that this was only fair treatment to avoid retroactivity.

The interactions between Resolution 6 and Resolution 7, and between Resolution 7 and Resolution 8, seem to be unique and without parallel in the United States law.

The United States law is much more sensitive to changes in the interest

rate than the Canadian law is. As a rough order of magnitude, the tax imposed by the Canadian resolutions would be something close to the United States law when companies are earning about 6 per cent interest, as is now true for Canadian companies. For lower interest rates the Canadian resolutions would impose a tax load substantially in excess of that imposed by the United States law, assuming that companies would feel a need to retain about the same amount of surplus after tax as they have been.

It is my opinion that companies would feel that they must continue to retain about the same surplus after tax as they have been retaining in the past. When policyholder dividends are reduced or nonparticipating premiums are increased because of the tax, this action in itself increases the tax. For example, if the tax were one million dollars without any change in policyholder dividends, or in premiums, and if dividends are reduced or premiums increased by one million dollars, that action further increases the tax by about half a million dollars; therefore the company would have half a million dollars less to retain in surplus after tax than it would have had before the tax law came into being. Consequently, if the tax without any change in premiums or dividends were a million dollars, the company has to reduce its dividends or increase its premiums by two million dollars, which action in itself adds another million dollars to the tax, in order that it can pay a total tax of two million dollars and retain the same surplus that it had been retaining before the tax law.

We believe that this leverage from required adjustments in the net cost to policyholders was not fully understood by the government when the Minister gave his budget message in October. For this reason, we believe that his estimate that the resolutions would produce about $95 million in revenue from life insurance companies was seriously understated, and that the resolutions, if enacted without any change, would produce revenue closer to $150 million. The incurred United States tax during 1967 for United States companies was $935 million.

I know very little about the tax law of the United Kingdom, but it is my understanding from hearsay that the net result of allowing a deduction to policyholders in the United Kingdom for premiums paid has the effect that the government probably loses revenue rather than gains revenue from the life insurance operation. This is the kind of recognition of the social value of life insurance that I would like to see copied in the United States and in Canada.

As far as I can see, there has been very little recognition either in the United States or in Canada of the social value of life insurance in the structure of the tax laws. Both countries give a small concession by de-

ferring the tax until endowments mature or the policy is surrendered, for people whose life insurance policies turn out to be temporary investments of savings.

Both countries allow death claims to be paid free of income tax, on the general theory that death claims are a redistribution of capital from the people who paid the premiums to the people who are unfortunate enough to die. This theory is not pure for permanent insurance, because the premiums are reduced below what they would otherwise be as the result of interest earned on funds held. If there were no tax on the companies, this would be a tax concession. But it seems to me that the tax imposed on the companies more than makes up for any tax concession to individuals. The Canadian law does it quite explicitly through Resolution 7. The United States law never has spelled out this line of reasoning, but it seems to me that it is the only valid justification for taxing companies in respect to participating insurance provided at cost.

If there were any substantial tax concession, we would have customers clamoring at our doors to buy policies and we would not need to spend so much time and effort in developing a sales force to sell life insurance. The so-called tax concessions sometimes enumerated by "tax reformers" generally give full weight to the interest earned on life insurance funds but fail to reflect any deduction for the expenses inherent in conducting a life insurance business. These expenses extend far beyond the expenses directly related to the risk part of the life insurance premium.

When the tax on policyholders and the tax on the company are taken together, it seems to me that neither the United States nor Canada gives very much recognition to the social value of life insurance.

MR. WILLIAM H. BURLING: The confusion created by the "interaction" between Resolutions 7 and 8 is essentially unnecessary, and thinking on this entire subject can be clarified if we think of a company's operations as producing first the "underwriting gain or loss" in the normal casualty-property sense and second the "profit or loss from operations," which is the amount obtained when investment income is added to the underwriting gain or loss. What the government is doing in essence when it uses Resolution 8 income as a deduction in the Resolution 7 computation is to reverse the normal arithmetic and obtain the underwriting gain or loss by subtracting the investment income from the operating gain or loss. In other words, the government's position is that the actuarial underwriting loss arising from the running of the business before crediting any investment income is a sound measure of the amount of investment income that the company uses for the benefit of its policyholders through

its actuarial reserve and dividend procedures. Using in the computation the Resolution 8 tax after the (interaction) deduction of the Resolution 7 tax is the government's way of "grossing up" the pure underwriting loss so that this needed amount of money is still available after investment tax has been paid on taxable investment income.

Incidentally, my algebra showed that in the routine situation we can think of the total tax as being approximately the tax at corporate rates on the full gain from operations (before any deduction on account of investment tax) plus an additional tax at 7.065 per cent on the amount of taxable investment income. Only if the basic gain from operations is negative do we have complications, and even then all that happens is that the 7.065 per cent is increased, possibly up to as high as 15 per cent. I believe that this interpretation of the total tax is preferable to the interpretations of other algebraic manipulations.

II. *Taxes on Insurance Companies Compared with Other Industries and Financial Institutions*
The Minister also stated, "The life insurance industry in Canada, both foreign and domestic, and those who invest in it will be taxed fairly by comparison with other industries and financial institutions."
A. In what respects do the changes in the Income Tax Act achieve this objective?
B. In what respects do they fail to do so?

MR. H. EDWARD HARLAND: I propose to discuss separately the tax on policyholders and the corporate tax on companies.

TAX ON POLICYHOLDERS

As Mr. Campbell has pointed out, Budget Resolutions 6 and 7 together provide for taxation of investment income benefiting policyholders. Hitherto, most of such investment income earned in the life insurance industry in Canada has been exempt from income tax at both the company and policyholder levels.

The 1966 Report of the Royal Commission on Taxation, better known as the Carter Report, recommended that this investment income be brought into the tax base of policyholders year by year. It presented the view that tax exemption in this instance gave the life insurance industry an unfair competitive advantage over other savings intermediaries. It further argued that this competitive advantage could result in a misdirection of a portion of the flow of savings in the economy.

The government has accepted the recommendation that such investment income should be taxed but has outlined in the Budget Resolutions a method considerably different from that suggested in the Carter Report.

The new tax law will apply to Canadian business only. This recognizes an important consideration in equitable tax treatment. To the extent practicable, groups of policyholders in different countries should have their insurance costs relate to the actual experience in their particular country. Therefore, the "exporting" of Canadian tax laws to insurance written on residents of another country could create problems of competition and equitable pricing of products. For example, the writing of business in a country with low rates of tax on the life insurance industry would be made very difficult. On the one hand, a proper allocation of the tax incurred on the business written in that country would make the product noncompetitive in comparison with that which domestic companies could offer. On the other hand, a competitive pricing of the prod-

uct would require that the tax be charged in some way against a completely unrelated class of policyholders in some other country.

For these reasons, the new law, as applied to both companies and policyholders, will be applicable to Canadian business only.

It has been mentioned that Resolution 6, providing for the tax on policyholders' gains on termination other than by death, will apply only to gains occurring after the date of the Budget announcement. This recognizes the important principle of nonretroactivity in taxation.

The Resolution 7 tax to be collected at the company level will not apply in respect to investment income attributable to nonparticipating business in force at the date of the Budget speech. This provision is not a matter of avoiding retroactive taxation, because the investment income will be earned after the date of the Budget speech. Rather, the point involved is equitable tax treatment of various groups. The government anticipates that Resolution 7 tax, which is payable by the companies in lieu of a direct tax on policyholders, will be passed on to policyholders in the form of increased net costs of insurance. Obviously, the companies could not pass such a tax, arising from pre-existing nonparticipating business, on to the proper group of policyholders, and it would be inequitable to ask any other group to bear the tax on income not benefiting them.

It might appear that capital gains benefiting policyholders will be taxed at their personal rates through the operation of Resolution 6. However, all amounts includable in policyholders' taxable income pursuant to Resolution 6 are deductible in determining the company's Resolution 7 tax base. Therefore, the amount of Resolution 7 tax otherwise to be paid by the companies, and presumably passed on to policyholders, is reduced. Any over-all tax inaccuracy from this source will be limited to the difference between the 15 per cent rate used in Resolution 7 and the average tax rate of policyholders, and perhaps rare instances in which a company has a zero Resolution 7 tax.

Let us consider some ways in which the proposed taxes on policyholders may be considered inequitable.

Policyholders do not have direct and immediate access to investment income that is to be taxed at 15 per cent at the company level. It may be argued that a portion of such investment income gives immediate benefit in the form of reduced premiums or increased dividends. However, the amounts that contribute to the buildup of cash values are not available to the policyholder unless he surrenders his policy, an act which constitutes an important and perhaps irreversible change in the policyholder's position. Taking a policy loan does not really alter the situation, since interest must be paid on that loan.

In determining the amount to which the 15 per cent rate of tax under Resolution 7 will apply, a deduction is allowed with respect to income subject to tax at the corporate rate pursuant to Resolution 8. This deduction is designed to avoid imposing double taxation on investment income flowing into earnings of the company. Inequity may arise, however, because the assumption that company gain is equal to gain from investment income is rough-and-ready and not necessarily a concession on the part of the government. In addition, the deduction suggested with respect to nonparticipating business is complicated by the nonretroactive application of Resolution 7 tax to such business and is not as favorable as that in respect of participating business.

In addition, there are a number of situations in which the industry feels that inequitable tax treatment will result unless provisions not necessarily implied in the Budget Resolutions are incorporated in the law and regulations.

All administrative expenses should be considered in establishing the appropriate deductions from investment income for the Resolution 7 tax. General expenses, commissions, miscellaneous taxes, and the like, are just as clearly part of the process of providing over-all benefits to policyholders as are investment expenses. Bank depositors pay income tax only on amounts credited to them, which are net of all the operating expenses of the bank.

A 2 per cent premium tax is paid in Canada on insurance premiums. It is expected that at a minimum this tax would be an allowable deduction in determining the corporate tax under Resolution 8. However, this would not be sufficient to provide equity in relation to other savings intermediaries, which pay nothing comparable to the premium tax. Therefore a tax *credit* with regard to premium taxes paid should be allowed in both Resolution 7 and Resolution 8 taxes.

It is by no means clear how segregated account business written by life insurance companies will be treated under the new tax law. It seems probable, however, that the industry will be able to offer such business on a tax basis comparable to that applying to trust companies and mutual funds.

The health insurance business offers another example of an area in which care will be needed to avoid inequities. A great deal of health insurance business is written by companies other than life insurance companies, and their tax laws are not being revised at this time. The new tax provisions for life insurance companies should treat the health insurance business of such companies as consistently as possible with that written by other carriers. A peculiar problem arises here, however. As mentioned before, the life insurance industry will be taxed on its Canadian business

only. It would be inconsistent and perhaps awkward to follow this approach for life branch business but to tax health business on a worldwide basis with foreign tax credits. Perhaps the treatment of health business in the new law will conform with that of life business, and the law applicable to health business of nonlife companies will be brought to the same basis in more general tax reforms expected later this year.

CORPORATE TAX

The new law is being prepared with the purpose of imposing a corporate rate of tax on whatever amount might be considered the equivalent of taxable income in any other kind of business. As became quite apparent a decade ago, when the current United States tax law for life insurance companies was being hammered out, difficulties abound. Some of the provisions expected to be incorporated in the new tax structure to give an equitable tax base are the following:

1. To the extent practicable, life insurance taxation will fall into the general pattern of corporate taxation in Part I of the Tax Act. For example, rules relating to determination of investment income, capital cost allowances, allowable expenses, and the like will be the same as those for other corporations.
2. A deduction from the corporate tax base will be allowed for the special 15 per cent Resolution 7 tax, since this must be paid at the company level.
3. Dividends to policyholders will be allowable as deductions only to the extent of earnings in the participating account. This provision has the purpose of preventing earnings on nonparticipating business from being distributed tax-free to participating policyholders.
4. It is expected that life insurance companies will be allowed a deduction for investment reserves at least equal to that allowed other financial institutions.
5. Provision will be made for revaluing modified reserves to the full net level premium basis, to avoid inequities among companies using different valuation methods.
6. Foreign companies will be subject to special provisions that will attempt to place them on an equal tax footing with domestic companies. This will include some rule governing the size of asset or surplus funds subject to the Canadian tax law. Canadian companies operating in the United States are subject to a similar constraint under IRC Section 819.

There are, however, a number of important ways in which the proposed new tax law could work inequities on the life insurance companies. The number and seriousness of the problems will not be known until we have a law, regulations, and a period of adjustment to new conditions. Some of the major points of concern are discussed in the following paragraphs.

Real profits in the life insurance business are measurable accurately

only over long periods of time. Any measurement of profits or definition of taxable business income over periods as short as one year necessarily involves arbitrary assumptions, particularly with respect to required reserves and surplus levels.

This problem is recognized in the current United States tax law in various ways. Most important, the tax rate applied to taxable underwriting gain is only one-half of the regular corporate rate. This recognizes the difficulty of determining realistic earnings over short periods. In addition, companies are allowed not only the full increase in actuarial reserves on the basis established by the company but also specific deductions for additional reserves or margins of protection in regard to nonparticipating business, group life insurance, and health insurance. Unfortunately, an arbitrary limitation is set on the amount of dividend and other deductions for companies in Phase I. For many companies, this limitation eliminates the effectiveness of the special rules for determining taxable corporate gain from operations.

It is most important that the Canadian law should provide an effective solution to this problem. This is particularly so because of the complete and immediate taxation of investment income, whether for the benefit of policyholders or company.

With respect to regular reserves, the government has indicated that companies will not be allowed the unrestricted deduction of the increase in statement reserves. However, the extent and effect of limitations may not become clear until regulations are available, since the law is not expected to be very detailed regarding actuarial reserves.

We do not yet know what pretax deductions may be allowed for surplus and special reserves. Clearly, such items must be established as a necessary part of doing a life insurance business. They represent part of the policyholders' cost of insurance and should not be treated as taxable income to the company. At least in part, they are of the nature of contributed surplus.

It has been suggested, in the Carter Report and more recently, that many other industries are required to make decisions that carry very long-term financial implications. However, I do not know of another industry that undertakes anything approaching our very long-term commitments to customers. Similarly, our assets tend to be of relatively long duration and might therefore warrant larger investment reserves than those needed in other financial institutions. Our business will be taxed unfairly if the definition of taxable income to the company does not recognize the special nature of the business.

The tax treatment of reserves and surplus on tax-qualified pension

business is of particular importance. This business is keenly competitive, and the life insurance industry cannot afford to be placed at even a small tax disadvantage in relation to such competitors as trust companies. It is expected that satisfactory rules will be established.

The Canadian industry does not involve as clear a distinction between participating and nonparticipating companies as does that of the United States. Therefore, the question of the relative tax treatment of participating and nonparticipating business has not caused the concern that it did here a decade ago. Differences of opinion have been noted, nevertheless, and the matter involves enough intangibles to ensure that no solution can conceivably appeal to everyone as fair.

CONCLUSION

The foregoing discussion of examples of equity and inequity in the proposed tax changes for the life insurance industry ignore social considerations. In my view, it is unfortunate that the government has also largely ignored or discounted social considerations in developing the tax changes, particularly with respect to the Resolution 7 tax. However, this is a matter on which the government has listened to the industry's views and has apparently reached a conclusion. It is now up to us to do the best job we can for policyholders and shareholders under the changed conditions.

III. *Effects of Tax Changes on Life Insurance Operations*

A. What have been the immediate effects of these changes on life insurance operations in Canada?

B. What are likely to be the long-range effects on company operations and on product design?

MR. J. CRAIG DAVIDSON: It was a complete surprise to the industry when, in the budget of October 22, the life insurance industry was singled out for immediate tax changes when we had been assured by the government that any changes in the basis of taxation of the industry would form part of an over-all revision in the total tax structure.

It is very difficult to assess the Budget Resolutions and the exact way in which the industry will be affected. As a result, there is a great degree of uncertainty on many significant points. It is expected that the specific tax bill will be introduced in Parliament momentarily, and only then will it be possible to make a complete assessment of the immediate impact on the life insurance business. There may still be many areas of uncertainty, depending on how much is left to government regulation.

The usual custom in Canada is to make full provision for the payment of all Individual dividends one year in advance. As a result of this practice, the vast majority of Canadian companies are continuing their 1968 dividend scales into 1969. Some companies that were planning a dividend increase for 1969 have not implemented it because of the uncertainties involved. I believe that this will be somewhat of a surprise to certain government officials, since the so-called investment tax, as previously discussed, was really designed to tax at source what would otherwise be a tax payable by certain groups of policyholders and would be passed on immediately to them.

The industry and all companies have published reassuring statements to their field forces to communicate to their policyholders in an attempt to allay precipitate action on their part that might not be in their long-term interests. Particular emphasis in such communications has been placed on the nonretroactivity of the policyholder tax.

Broadly speaking, sales of life insurance do not appear to have been significantly affected by the new tax proposals; there are some indications that surrenders are up slightly, but it is difficult to know whether this is a result of the tax or other forces at work in the economy.

There has been a recent trend in Canada to contracts with some type of an equity link. This trend accelerated significantly toward the end of 1968 and probably has been somewhat influenced by the new tax proposals. No doubt this trend will continue to accelerate because of the special

position from a tax point of view of dividends payable by Canadian corporations. Because of this last point, a number of companies significantly increased their investments in such securities after the tax bill was announced, and it is expected that this trend will continue.

There is little doubt that in the longer-term future there will be a substantial increase in equity-related products and the use of registered retirement plans on which the basis of taxation has not been changed.

We have been assured by the Minister of Finance that competitively we will be placed on an equal footing with other types of financial institutions. In my opinion, this will be a real challenge to the insurance industry, which has had a privileged tax position in the past, as compared with other financial institutions. If we are going to compete with them, it will mean that we shall have to be equally or more efficient in our operations and have equally imaginative investment programs. This could have a long-term impact on the basis of compensation of our field forces. No doubt it will be necessary to look extremely carefully at the substantial front-end load created by present methods of compensation. This could be a motivating force to experiment with and to develop new forms of compensation that would allow us to be highly competitive with other financial institutions.

Life insurance in its present forms will continue to be a major part of the services offered by life insurance companies. However, removal of the so-called privileged tax position will no doubt lead to substantial diversification of operations into other aspects of financial services. In Canada the former clear-cut lines of operation between various classes of financial institutions have been gradually disappearing. If we are to continue to obtain a reasonable share of the savings dollar, diversification will be essential.

At the moment there are serious impediments to certain types of diversification because of federal legislation. Before we can expand our services to their full potential, federal legislation will have to be changed to allow mutual companies to enter new fields of operation. Stock companies can diversify through the concept of the creation of a holding company.

IV. *Effects of Tax Changes on Investment Policies*
What changes in the investment policies of life insurance companies are likely to result from the changes in taxation?

MR. J. CRAIG DAVIDSON: Federal legislation with respect to investment in equities has followed a rather checkered course. At one time it was almost considered immoral to invest moneys in equities when you were selling fixed-dollar contracts. In more recent years, however, there have been a number of significant moves by the federal government to encourage the populace to invest more broadly in equities. We, as individuals, are perhaps somewhat more conservative in this area in Canada than you are in the United States. A few years ago the federal insurance acts were changed to allow a life company to invest up to 25 per cent of its assets in equities that met certain requirements. In addition, there is no limitation on the amount that may be invested in equities in most of the presently constituted segregated funds of Canadian companies. In spite of these changes in legislation, there is no marked increase in the investment in equities to date except in segregated funds. There are several reasons for this, with which you are all familiar. I shall mention, however, the asset-valuation requirements for statement purposes and also the fact that there is no way of bringing into your investment income at least some part of the capital gains.

Now, with the new tax law, dividends received by insurance companies from Canadian taxable corporations, including real estate investments, will be exempt from the 52 per cent corporation tax, as well as the so-called investment tax previously described. You can readily see that the yield on a stock will only have to be a fraction of that on a bond or a mortgage to result in the same return net of taxes to the company. In my opinion, this will cause a substantial shift into equity investments, in the belief that we will be doing a better job for our policyholders. This, of course, will be at the expense of mortgage and bond investments. It is interesting to note that the insurance industry in Canada provides approximately 25 per cent of the mortgage funds coming from the private sector. In my opinion, the tax position of equities in the future, together with the estimated hundred millions that the companies will pay to the federal government in new taxes, will have a devastating effect on the volume of moneys from the insurance industry for mortgage purposes. It is rather interesting to note also that another arm of the federal government is putting considerable pressure on savings institutions, such as ourselves, to increase our mortgage lending because of the housing crisis in Canada. This demonstrates quite clearly to me the schizophrenia of government.