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EDITORIAL

The words "actuary" and "actuarial" are sometimes heard resounding through the halls of Congress. Members of the Society hearing them and recalling some past experience, may occasionally be skeptical as to whether they are being properly used or merely employed to lend a spurious air of authority to some project.

The introduction of Senator Javits' bill "Pension and Employee Benefit Act of 1967" (S.1103) strikes a professional note that the actuaries may wish to hear. An analysis of this bill is given elsewhere in our columns and incidentally our Canadian friends will be interested to know that the Definitions and Title I of the Bill are modelled upon the Ontario Pension Benefits Act of 1965.

In his introductory speech Senator Javits said that S.1024, the Yarborough Bill endorsed by the Administration, was "strictly a conflict-of-interest and ethical-standards bill" setting standards for plan trustees but not for the plans themselves, and ignoring almost all the recommendations of the President's Committee on Corporate Pension Funds. He went on to say:

"The President's bill, while it has some worthwhile features . . . would require audits of pension books by accountants, which is fine as far as it goes, but the key men in this field are the actuaries who can tell you, not just how much cash you have, but how much you will need 10 years from now to meet the benefits which will accrue in the meantime. My bill requires actuarial certifications at periodic intervals, not just accountants' audits."

The Bill itself provides for setting up a "U.S. Pension and Employee Benefit Plan Commission." Among other duties the Commission is required to establish standards for and issue certificates of qualification to ". . . persons performing services required by the provisions of this Act to be performed by actuaries . . ."

Comments on the vesting, funding and other provisions of the Bill should properly be made by others. We are heartened by the several specific references to the need for competent actuarial guidance in the Bill, in the introductory speech, and in the Explanatory Notes. These most welcome references to the actuarial profession will, we hope, bring Federal recognition of the American Academy of Actuaries.

—A.C.W.

TAX PROPOSAL IN CANADA

by J. Ross Gray

The major topic of discussion in Canada is the Carter Report, named after the chairman of the Royal Commission on Taxation. It is a review of the Canadian federal system of taxation, unfortunately in complete disregard of provincial and municipal taxation. More than just a revision of the Canadian tax system, it is a suggestion to reorganize our entire economic life.

The Report is so far-reaching that its recommendations may never become law, certainly not in their entirety. If they do, there are serious implications for the life insurance business.

It will be possible to pass money around within the family-unit of husband, wife and dependent children without paying tax, but any money which passes outside that unit in any way will be taxable in full at the progressive rates of income tax. The declared intention is to reduce the ability to pass money from one generation to the next. Finally, when a family-unit terminates by the last death, income tax must be paid by the estate and also by the heirs.

Everything which can be regarded as an increase in spending power is to be regarded as income and taxed. This includes wages, salaries, commissions, pensions, interest, dividends, gifts, bequests, subsidized employee benefits, etc. It includes these items whether received or not, as soon as the right to receive them has been created. Capital gains less capital losses are to be taxed when realized, at the income tax rates.

Investment in Canadian corporation shares is made attractive to Canadian residents, to the detriment of bonds and other interest-bearing assets. A Canadian resident will receive credit for the 50% rate of corporation tax, and will be taxed only at his own personal rate, but a non-resident shareholder will have no relief from the corporation tax and, in addition, will be subject to a 15% withholding tax. Non-residents of Canada might sell their shares in Canadian corporations to Canadians, and might be obliging enough to invest in Canadian bonds instead.

Permanent emigrants on pension from a Registered Retirement plan will be subject to a withholding tax of at least 30%, to make sure that Canadians do not leave the country for tax reasons.