CAMIC ACCAM

CANADIAN ASSOCIATION OF
MUTUAL INSURANCE COMPANIES

ASSOCIATION CANADIENNE DES
COMPAGNIES D'ASSURANCE MUTUELLES

RECOMMENDATIONS FOR THE 2016 BUDGET

February 5, 2016

RECOMMENDATIONS FOR THE 2016 FEDERAL BUDGET

The Canadian Association of Mutual Insurance Companies (CAMIC) is hereby making two recommendations which are budgetary items falling under the responsibilities of the Department of Finance. Combined, these two measures are cost neutral to the Federal Government and would benefit up to 30,000 farm and fishing enterprises. They are:

1) Lowering the eligibility threshold, from 25% to 5%, to qualify for the tax deduction provided to insurers of farm and fishing properties, tax deduction found in paragraph 149(1)(t) of the Income Tax Act; and
2) Repealing subsection 4202(2) of the Income Tax Regulations which gives a tax advantage to three specific companies.

Who We Are

The Canadian Association of Mutual Insurance Companies (CAMIC) is the trade association for Canadian property & casualty mutual insurers. The Association counts 84 member companies almost exclusively based in rural and semi-rural Canada. They have a rich history of insuring farmers and fishermen dating back to pre-Confederation. Today, they insure about 75% of the 175,000 Canadian farms and a large proportion of small fishermen. As these companies were set-up by farmers and fishermen principally to serve them, farmers and fishermen tend to be active board members of “their” mutual insurance companies.

1) Tax deduction for insurers of farmers and fishermen (Paragraph 149(1)(t) of the Income Tax Act)

In 1945, the Report of the Royal Commission on Co-operatives recognized that the main mandate of mutual insurers was not principally to earn a profit but rather to provide a service. The Commission recommended that an insurer, mutual or otherwise, not pay tax when 50% of its business was done with farmers and fishermen. That recommendation was adopted by Parliament in the 1954 Federal Budget. Mutual insurers have since typically returned their tax savings to farmers and fishermen in the form of reduced premiums.

Over time, due to the steady reduction in the number of farms in Canada and the increased underwriting of non-farm/non-fishing risks, a number of mutual insurers started generating more than 50% of their premium revenue from non-farm/non-fishing business and, consequently, became fully taxable. To maintain the incentive to insure farmers and fishermen, in 1989 the Federal Government decided that insurers could deduct from their income taxes otherwise payable the percentage of their business done with farmers and fishermen as long as the insurer did more than 25% of its business with those sectors. In 1996, an additional modification was legislated, allowing insurers to deduct from their income tax otherwise payable one half of the portion of their business with farmers and fishermen if their business with them was between 20% and 25% of their book of business.

As the number of farms and fishing enterprises continues to diminish, the farm component of mutual insurers’ portfolios now averages about 15% of their book of business. That has meant more companies failing to meet the 20% threshold and more fish and farm clients not realizing the saving in their premiums that they would have accrued from the limited tax exemption.

Recommendation
That insurers, mutual or otherwise, be allowed to deduct from their income tax otherwise payable the proportion of their business done with farmers and fishermen as long as that proportion exceeds 5%.

Impact Analysis
According to Federal Government data, the current tax deduction costs the Federal Government $9 million/year in forgone tax revenues. CAMIC estimates that a reduction of the threshold from 25% to 5% would increase the tax expenditures by $2.5 million/year and benefit up to 30,000 additional farms and fishing enterprises.

2) Special tax measure applicable to 3 insurers of farmers and fishermen (Subsection 4202(2) of the Income Tax Regulations)

On May 12, 1994, subsection 4202(2) of the Income Tax Regulations was put in place to allow three (3) prescribed insurers not to take into account the gross premium income of affiliated insurers when determining their eligibility for the tax deduction under paragraph 149(1)(t) of the Act. The measure was retroactive to the 1989 taxation year and applicable to subsequent years. There was no public explanation of that decision.

The list of prescribed insurers was then, and remains as follows: 1) Union Québécoise, compagnie d’assurances générales inc.; 2) Les Clairvoyants Compagnie d’Assurance Générale Inc.; and 3) Laurentian Farm Insurance Company Inc. None of these three companies still exists. However, all three companies have been sold to other insurers. The three current successor companies have seen the tax benefit extended to them, even though the percentage of the farm/fishing business of each respective consolidated company is much less than the 20% threshold required in the Income Tax Act. Their status distorts the competitive marketplace without any tax policy rationale.

Recommendation
That subsection 4202(2) of the Income Tax Regulations be repealed

Impact Analysis
CAMIC estimates that the elimination of the special treatment afforded to the successor companies of the companies prescribed in the Income Tax Regulations would reduce tax expenditures by $2.5 million/year. Insurers, mutual or otherwise, would be operating on a level playing field.

Combined recommendation
That both recommendations be implemented simultaneously to make the combined measure *cost/revenue neutral for the Federal Government*.