At 3.35 p.m. the meeting was resumed.

The CHAIRMAN: Order please, gentlemen. Mr. Davies, the General Manager of the National Life Assurance Company, desires to present a brief.

Mr. G. FAY DAVIES, General Manager, National Life Assurance Company of Canada: Mr. Chairman and gentlemen, with your permission I should like to read what I have here and follow it with one or two remarks:

On March 2nd, 1945, on behalf of the President and Directors of The National Life Assurance Company of Canada, I addressed a letter to C. Fraser Elliott, K.C., Deputy Minister of National Revenue for Taxation. This letter, in brief, requested information with respect to taxation of amounts received for values granted in the event that the shareholders and policyholders should convert the Company and put it on a mutual basis. This transaction would require a special Act of Parliament to amend the aforementioned Company's Act of Incorporation and the question was whether, in the event of such an Act being passed and in the event that such a transaction were completed, would the proceeds payable to the shareholders arising out of such transaction be subject to income tax.

On October 16th, 1945, the Deputy Minister of Revenue for Taxation replied stating that, in the event of the proposed transaction being consummated, certain of the moneys received by the shareholders under such a plan would be deemed to be subject to taxation. It is presumed that this ruling was made in the light of Sections 17, 19 and 32A of the Income War Tax Act, as amended.

The CHAIRMAN: Is that last statement a quotation from Mr. Elliott's letter?

Mr. DAVIES: No; that is my own statement.

The ruling has the effect of making it very diffcult, if not impossible, to effect the mutualization of any life insurance company.

It is our contention that this situation is not in the public interest. This ruling of the Deputy Minister of Revenue for Taxation places the policyholders of life insurance companies which have capital stock who are contemplating mutalization in a quite different position from ordinary prospective shareholders of these same companies. In other words, nine or any number of persons can join together to purchase all or a portion of the stock of a life insurance company and no tax liability will arise irrespective of the price paid as the proceeds of such sale. On the other hanl, if these same persons represent, as trustees, the policyholders of the life insurance company and event if funds in the participating account not otherwise subject to taxation are used to purchase such shares, than a taxation liability arise. In other words, the persons who represent only themselves in the purchase of the stock of a company may, either before or after such a sale, if they so wish, transfer all non-participating funds into the participating account and may subsequently pay it out in policyholders' dividends in cash or may disburse it otherwise for the benefit of the policyholders as, for example, to purchase the whole or part of the participating business of another life company, and no tax liability upon the purchase price paid for such shares will be deemed to exist. On the other hand, if these same persons represent the policyholders as trustees and if they consummate the same transaction, the proceeds are then held to be in quite a different category and are held to be subject to taxation. It is our belief that such an anomalous situation constitutes discrimination which was not intended by the Act.

It is not an uncommon practice for the shares of life insurance companies to pass from the hands of one person or one group of persons to another person or other groups of persons and any appreciation in value over and above the paid-in value, whether brought about by reason of accumulated surplus or otherwise, is not deemed to be subject to taxation. However, by virtue of the