for policies, group term life insurance, accrued policy dividends and investments.

Section 68A(4)(b) makes clear that profits on bonds, mortgages and other securities must be included in income. This is really the other side of the deductions. It also provides for the inclusion of an amortized discount on securities.

Section 68A(5) provides that in computing income from carrying on a life insurance business no deduction may be made under the ordinary provisions of the act for reserves for doubtful debts or mortgage reserves. These are not necessary, in the opinion of the drafters of the bill and the Government, because of the investment reserve which has been provided. In the present Income Tax Act, under section 11(1) (e) honourable senators will find provision for a reserve for doubtful debts. This is made inapplicable to life insurance business.

There is also to be found in section 85G of the Income Tax Act as it presently stands provision for a reserve in relation to mortgage loans, and this is all wrapped up now in the matter of the investment reserve. Therefore, these two sections specifically exclude their application to life insurance income.

Section 68A(6) is a rather important section, because it provides a special formula for determining the deductions which may be claimed by a life insurance corporation for dividends from taxable Canadian corporations. Under the ordinary rule, which does not apply here, when dividends are passing from one Canadian taxable corporation to another they pass free from tax. The reason for this treatment is that only a small proportion of the investment income of life insurance corporations finds its way into profit. Most of it ultimately goes to policyholders in the form of claims and policy dividends. The investment income tax provided under Clause 28 applies only to the investment income which ultimately goes to policyholders, and a method is provided there for eliminating the portion of investment income that goes into profit.

The effect of the formula in this subsection is that a pro rata proportion of the investment income which is deemed under clause 28 to go into profit is assumed to come from exempt dividends. The proportion of exempt dividends to total investment income is in terms of gross revenue less expenses of the investment departments. In the case of dividends, such expenses are deemed to amount to three per cent of the gross revenue and, accordingly the numerator, in the proportion to which I have referred, is 97 per cent of the gross dividend income. The denominator is the total of investment revenue, less the annual cost of management. Whatever results from the application of this formula is the amount of the deduction. You may be a good deal wiser than I, because I did not attempt any calculation, believing it to be a job for accountants, and if anybody wants this attempted in committee we will have people there who can deal with it. Section 68A (7) applies only to resident stock life corporations. Its general effect is to insure that corporate tax is collected on dividends paid in the future out of surplus accumulated free from corporate tax in the past. You will remember when you come up to October 22, 1968, and have a date at which the new law applies, these mature companies will have a certain accumulated surplus, but only the part of that accumulation that has been credited to shareholders' account has been taxed in the past and up to that moment. Therefore, as and when it comes out in future years on and after October 22, 1968, provision is made so that it comes out subject to the corporate rate, otherwise, because they had repealed section 30, it might be that there will be no tax on that accumulation as it came out.

Section 68A (8) denies a foreign tax credit to a resident life insurance corporation. The reason for it is simple. The credit is not necessary because foreign operations of such a life insurance corporation are not subject to Canadian income tax.

I should call your attention to section 16, which is at page 26 of the old bill and page 30 of the new bill. That deals with the situation where these may be a conversion of a provincial life insurance company into a mutual corporation. It is specifically provided that in those circumstances the money received by a shareholder for stock in the provincial life insurance company on its sale is non-taxable; that is, it is regarded as capital in the hands of the shareholder.

These are not all the exemptions spelled out in detail, because that would be too tedious and too wearisome, and I think unnecessary to an understanding to the principle of the bill. The principle does take away from the corporate income of life insurance companies certain deductions before arriving at an amount that may be called the taxable income, or that may establish the element of profit in such income which is to be subject to tax at the corporate rate.

Now we come to the investment tax, which is set out in a new part of the act called Part