regulations for those two years—is entitled to deduct its exploration and drilling expenses and its depletion allowances on the basis of its well-by-well operations. However, the Department resisted the argument through to the Supreme Court of Canada, and finally, having found that the decision was against it, the department now proposes to clarify the law by having it say precisely what it believed it stated before the litigation was undertaken.

I may say that the proposed amendments are to apply from the year 1956 on, and it is believed that the regulations in effect between 1951 and 1955 are in accordance with the understanding that has always prevailed in the Department of National Revenue.

Hon. Mr. Isnor: Before the honourable senator leaves this clause will he deal with subclause (c) relating to coal? I understand that is a new provision; that the word "coal" is included.

Hon. Mr. Connolly (Ottawa West): I would ask the honourable senator to raise that question in committee. The section has to do with the allocation of depletion as between lessors and lessees in coal mines. It is a detail upon which the officials of the Department will give a much better explanation than I can here, if the honourable senator does not mind.

I come now to section 23 of the bill. Previously an oil company or a mining company which took over the business of another oil or mining company could get no benefit from the accumulation of pre-production expenses incurred for drilling and exploration by the company which was taken over. Under this amendment, it is proposed that this be changed and that in any one year, if the pre-production expenses are less than the income derived from the properties acquired, the company acquiring the business of the other company may take advantage of the amount of such accumulated pre-production expenses. Those expenses must be related to the properties which have been acquired by the purchasing company. In other words, it is now permissible to use the pre-production expenses of the acquired company up to the limit of the profits which are to be derived or are derived from the properties of the company which has been acquired.

This new rule is restricted to certain types of mergers which are described in the section and with which I will not further weary the house.

The next heading under which I would discuss the further amendments proposed by this legislation has to do with pension plans. As honourable senators know, under the regulations any money that is paid into a legitimate or recognized pension fund, either by an employer or by an employee, is exempt from taxation in the year in which it is paid into the fund. When it is paid out to the pensioners, the amount so paid is taxable in the hands of the pensioners. They are then receiving the pension benefits.

There are a number of sections in which honourable senators will find a change underlined, changing the word "approved" to the word "registered". These are sections 1, 3, 14, 29 and 30. Heretofore these legitimate pension plans have been described in the act as "approved" pension plans. I think the department is a little concerned that the word "approved" might carry the implication they are not only Government approved but perhaps Government guaranteed. So to avoid any possibility of that interpretation it proposes that the name be changed from "approved" superannuation or pension fund or plan to "registered" superannuation or pension fund or plan.

Hon. Mr. Isnor: May I inquire as to who will register? Will it be the insurance company or the employer?

Hon. Mr. Connolly (Ottawa West): Usually it is the employer company that takes the initiative in having a plan approved. Sometimes the plan is one that is worked out with an insurance company. Sometimes it is done simply by the employer and the employees establishing a trustee and paying the money into a fund. I think the important thing about these pension plans is the fact there must be a devesting by both the employer and employee of the moneys paid in to the pension fund, and a vesting in the trustee of the fund, so that the employer and employee lose all control of the money. The employee's benefits develop either when he reaches the pensionable age or when, for example, the plan is dissolved or when he discontinues his membership in the plan, and so on.

Hon. Mr. Isnor: How about a plan that is supported entirely by an employer? The income tax would not affect the employees in such a case.

Hon. Mr. Connolly (Ottawa West): There are rules contained in a little blue booklet that deal exhaustively with the conditions under which plans can be approved for the purposes of the Income Tax Act. As I have already said, the plans are approved or registered by the department, and once a plan is approved and registered by the department, the payments that are made into it are deductible, whether made by an employer or by an employee or by an employer and an employee. The important thing, of course, is the deductibility from the point of view of the employer.