

this type of co-operative effort. They were to be taxed on net earnings, the same as any other company—with one somewhat technical adjustment to the effect that the reserve for unearned premiums was to be calculated at 100 per cent rather than at 80 per cent as required by the Insurance Act.

One mutual company appealed an interpretation of the act, and the appeal was upheld by the appeal board. I believe this decision was later reversed by the Exchequer Court. Then the Supreme Court of Canada, some time around last May, after the budget for that year had been brought down, found that if all or the majority of the members of such a body of people were banded together to insure themselves, any surplus arising from overpayment for insurance by them was not taxable.

The Supreme Court did find that income arising from the investment of that surplus was taxable, after an allowance of some three per cent of such income was deducted to allow for the expense of operating the investment portfolio, and so on. The main point was that no underwriting profit was taxable.

Now, it is obvious the minister wishes to get his hands on that underwriting surplus.

Let us consider some of the circumstances surrounding these mutual fire insurance companies. First of all, usually the members are farmers grouping themselves together to provide protection for themselves against fire loss. It is a co-operative effort.

I should like now to place on record a schedule of the limit on refunds of surplus by insurance companies as set out in section 117A of the Insurance Act of Ontario. This is governed by a limit per \$100 of insurance after refund has been deducted from surplus. A company with over \$2 million of direct insurance in force must have \$1 of surplus for every \$100 of insurance at risk; a company with over \$5 million insurance in force must have 80 cents per \$100 at risk; a company with over \$10 million must have 70 cents; one with over \$25 million must have 60 cents; one with over \$75 million must have 50 cents and one with over \$125 million must have 40 cents. I believe most companies would fall in the category of 60 cents or 70 cents per \$100 at risk.

In section 117 of the Insurance Act of Ontario, if a company falls below 25 cents for every \$100 of insurance in force, the department will force the company to adopt a basic premium of insurance of 80 cents per \$100, covering three years. Other provinces have provisions somewhat similar to those in Ontario. This is especially true in New Brunswick, where the act is patterned after that in Ontario.

One point that has made it exceedingly difficult for these companies has been the increase in prices during the last number of years. It has caused a tremendous increase in the amount of insurance in force and caused a drop in the proportion of surplus to insurance in force, which has forced them to try to accumulate surpluses to prevent the basic rate being applied, and has also made it more difficult for them to refund surplus. Therefore surplus seems to me to be more in the nature of a reserve.

It does not appear to me that these members are in business to make money. We all feel the tariff insurance companies do not as a rule like to insure farm risks. What are these people to do? They simply group together to protect themselves against the possibility of fire loss. I see no argument particularly against taxing income from the investment of surplus, but I do take objection to the taxing of any small excess of premium receipts over losses and expenses of operations, particularly when under their provincial charters they are required to keep a certain surplus on hand.

Now, Mr. Speaker, I would like to mention a few matters concerning the operation of the Income Tax Act which, I think, should be brought to the attention of the house. They may seem rather minor but in their own way I believe they are rather important. I would like to read section 27, subsection 1, paragraph (c) of the act from Stikeman's "Income Tax Act" annotated 1953 revised. Section 27 states:

(1) For the purpose of computing the taxable income of a taxpayer for a taxation year, there may be deducted from the income for the year such of the following amounts as are applicable:

We now come to paragraph (c):

an amount equal to that portion of medical expenses in excess of three per cent of the taxpayer's income for the year paid either by the taxpayer or his legal representative

(i) within a period of twelve months ending in the year and not included in the calculation of a deduction for medical expenses under this act for a previous year, . . .

It would appear from the wording of the act that the taxpayer who does not pay his medical bills promptly receives the greatest benefit. In other words, the government appears to bonus the delinquent payment of medical bills. The act states that medical expenses will be allowed which are paid within a 12-month period, and since there is a three per cent deduction, it would appear that the taxpayer would be further ahead if he accumulated several years' medical bills and paid them all within the 12-month period. You might say, the taxpayer who paid his bills promptly during a three-year period would have nine per cent of his