

the page on first reading of the bill and the page as passed by the House of Commons.

Since the most complicated part of this bill concerns the provisions having to do with the corporate taxation of life insurance companies, et cetera, I thought that while you were still fresh and had not grown too accustomed to my voice, so as not to be able to gather the full import of what I was saying, I would deal with the life insurance amendments straightaway. They are not necessarily in the order in which they occur in the bill, but I think they may be in a logical sequence.

In the sections to which I have referred you, already the bill provides a basis for the taxation of life insurance companies. Heretofore, such life insurance companies were taxed under our Income Tax Act on the amount of money credited to the shareholders' account, under section 30 of that act, and at the corporate rate. Accordingly, mutual life insurance companies were subject to no income tax in relation to that part of their business, because there were no moneys credited to the shareholders' account, as there were no shareholders. Fraternal benefit societies were specifically exempt under our Income Tax Act, by section 62. Then we have had—and it is being re-enacted—section 68A, under which insurance companies, other than life insurance companies, whether mutual or not, which entered into insurance contracts against loss, damage or expense of any kind, were deemed to be carrying on insurance business for profit and subject to tax, which means they were subject to tax at the going corporate rate.

Now, in addition to this tax, up until the moment of the budget in October of last year, such life companies were also taxed provincially at 2 per cent on their premium income. This provincial premium tax continues.

With regard to the changes in the law, my approach is this: first, to deal with the taxation of the corporate income of life companies; secondly, to deal with the 15 per cent tax on investment income; and, finally, to deal with the tax on policyholders' income.

The changes in the law are these. First, what is income of life insurance companies, how is it defined, and what is taxable income and how such computation is to be made, and what deductions are allowable resulting in the amount of taxable income subject to tax at the corporate rate. The second group is the taxing of investment income as a new investment tax at a flat rate of 15 per cent—I think

I have already mentioned that—in lieu of taxing the investment income as though it had been received by the policyholders in the year. So, although it may relate to the policyholders, the incidence of tax, or the charging, is on that identifiable amount of investment income calculated under the provisions of the act still in the hands of the insurance company. It is taxed in its hands, rather than being followed through and taxed in the hands of the policyholder.

The third group is the tax on proceeds on disposition of an insurance policy in the hands of the recipient when such proceeds are received during the lifetime of the insured. In other words, certain amounts are to be included in the income for a taxation year of a policyholder in respect of any life insurance policy other than an annuity contract. The rate of taxation applicable on this kind of income in the hands of the policyholder is, of course, a varying rate. It depends upon the bracket in which the particular policyholder may be at the time this additional amount is added to his income.

Dealing now with the corporation tax, this new concept of the taxation of life insurance companies covers companies carrying on such business—that is, the life insurance business—whether they are mutual or not. If you look at clause 15 on page 14 of the bill that was presented to the House of Commons on first reading, which I will call the old bill, and which is at page 15 of the bill that was passed by that house, you will see that it repeals section 68A of the act, to which I made reference a short time ago, and substitutes a new section 68A which does not contain the excepting clause, "other than life insurance corporations." It also provides rules for the computation of income and taxable income and tax payable by life insurance companies. Section 68A, of course, continues to apply to non-life companies.

As to life companies, it is important to note that the income taxed is Canadian business income derived from the operation of a life insurance business in Canada. It is not on a world income basis. All income has to be included, even income from property vested in the corporation which is deemed to be income of the corporation.

We come now to the deductions. I do not recommend that you make an attempt to read and analyze, except early in the day, any of the language used in the sections to which I am about to refer, but I think a statement in my own language of what the deductions are may assist in any interpretation that you