

poration tax on profits, and profits are considered by the income tax officials as the difference between the total of all receipts from premiums, interest on investments and from re-insurance, less expenses of management and losses paid. There must necessarily be a substantial surplus to provide a reasonable reserve for unexpected and severe losses. This yearly surplus will be taxed at the rate of thirty per cent.

We have sixty-seven insurance companies in Ontario. The executives of the insurance companies of Ontario interviewed the department in the month of January, and the ruling given at that time was to the effect that mutual insurance companies operated for the benefit of farmers "to the extent stated by you, and which are members of your association, would be exempt from taxation under the provisions of section 4 (1) of the Income War Tax Act, as long as the said section is in force."

I should like the minister to say whether this taxation is still in force.

Mr. ABBOTT: With regard to the point raised by the hon. member for Perth (Mr. Bradshaw), this class of mutual fire insurance companies is treated in exactly the same way as any other mutual corporation, or any cooperative for that matter. They are entitled to deduct from their earnings any refund or refunds, patronage dividends, and the like, before arriving at taxable income. But there is no distinction between so-called farm mutuals and other mutuals. Consequently the ruling to which my hon. friend refers, which was given in January, was in error as to the true position under the law.

Mr. JEAN-FRANÇOIS POULIOT (Temiscouata): Mr. Speaker, some time ago I suggested a plan to dispense with the income tax and replace it with a tax on bank clearings. I should like to ask the minister if he will be kind enough during the recess to give instructions to his officials to examine the matter and offer constructive criticism in that regard. I do not contend that the plan is perfect, but I should like to have all possible objections from the officials of the Department of Finance in order that I may know what can be done with it. If the minister will be kind enough to bring down that information in due course, I think the people will be satisfied.

Motion agreed to, and bill read the third time and passed.

MUNICIPAL IMPROVEMENTS

AMENDMENT OF ASSISTANCE ACT OF 1938— ADMINISTRATION OF PROJECT BY ANOTHER MUNICIPALITY

Mr. R. W. MAYHEW (Parliamentary Assistant to the Minister of Finance) moved the second reading of Bill No. 256, to amend the Municipal Improvements Assistance Act, 1938.

Mr. DONALD M. FLEMING (Eglinton): Mr. Speaker, this amendment does not appear to be very important. It may be a useful amendment, although I am bound to say that the terms upon which loans hitherto made to municipalities are being altered, pursuant to the terms of this amending bill, are being made so severe that I question if advantage is likely to be taken of the act on many occasions. We are not told in the explanatory note what has given rise to the amendment, but it may be that some municipalities which have already received loans have gone through some change in municipal structure or municipal boundaries.

This is a convenient occasion to ask the government what its policy is with reference to the Municipal Improvements Assistance Act. This act was passed in 1938 at a time when conditions were quite different from those which generally prevail today. Many municipalities were still struggling out of the days of near insolvency or at least financial difficulty, but most of them have since made substantial progress. The act was not drawn upon by many municipalities. This is a proper occasion, it seems to me, for asking the government if it intends to make any substantial use of this act in the days that lie before us.

It will be recalled that the act made provision for loans at two per cent per annum on an amortized basis, the period of the amortization being set by the governor in council, for the purpose of assisting municipalities in proceeding with the construction or extension of works of certain kinds which were defined in the act as self-liquidating projects. Back of it was the intention to assist municipalities at low interest rates in constructing works that would bring not only local benefit to the citizens but would assist in providing employment.

A few months ago I obtained information in reply to a question which I had placed on the order paper with reference to advances made to municipalities under the provisions of this act. I think this is a matter of interest to the