allocated to him. The trustee is exempt and the proceeds, when they come out, are completely free from tax. This is the definition of this kind of plan, and is the provision for the kind of taxing which I just described.

Hon. Mr. HAIG: Carried.

The CHAIRMAN: Does section 27, including 71A carry?

Some Hon. SENATORS: Carried.

Section 27 was agreed to.

The CHAIRMAN: Next is section 27 on page 18.

Dr. EATON: Section 28 repeals a provision in our law which imposes a corporation tax on the trustee in the case of what might be called a royalty setup in the industry. During the war when there was a high corporation tax rate, this provision was introduced. It is now repealed by this amendment.

Some Hon. SENATORS: Carried.

The CHAIRMAN: Shall this section carry?

Section 28 was agreed to.

The CHAIRMAN: Next is section 73 on the same page 18.

Dr. EATON: Gentlemen, section 73 is a re-enactment of the main substance of what was in section 9 of the old Act. You will remember that earlier in this bill section 9 was to be repealed. This is a re-statement of the main substance of that section 9, with the notable omission of subsection 6.

Hon. Mr. HAIG: Is this where you pay the 15 per cent on the surplus which is deemed excessive?

Dr. EATON: No, this provision is one which provides that upon capitalization and redemption of common stock and upon the conversion of common preferred stock, a dividend is deemed to have been declared. Now, the new piece of law here is related to this 15 per cent tax. That is, if in winding up, a dividend is deemed to have been declared to the amount of the undistributed income on hand, the shareholder is not taxable on the tax paid on undistributed income; so this introduces this new factor of tax paid income in respect of which the shareholder is not taxable, even if the dividend is deemed to have been declared.

Hon. Mr. MCKEEN: When you say "tax paid" you mean the earned surplus which has been transferred to capital account by the 15 per cent tax?

Dr. EATON: Yes. It may or not be formally transferred to the capital account.

Hon. Mr. HAIG: But it is presumed to have been done?

Dr. EATON: Well, we just say that the tax has been paid upon it and it is no longer taxable when received by the individual.

Hon. Mr. MCKEEN: Do you just put it in as a tax-paid reserve?

Dr. EATON: It can be left as undistributed income on hand, tax paid, which upon deeming to be a dividend is not taxable in the hands of the shareholder.

Hon. Mr. MCKEEN: If a company has $200,000 earned surplus and pays the $30,000 tax on it, is that tax then deducted from the $200,000 or does the whole $200,000 go into reserve?

Dr. EATON: It is deducted.

Hon. Mr. MCKEEN: So $170,000 goes into reserve?

Dr. EATON: Yes.

Hon. Mr. MCKEEN: If there is no other earned surplus, can that be paid out to shareholders by tax-free dividends?

Dr. EATON: No, sir.