

quite capable of doing that themselves; but I can say that during the course of the discussion reference was made to sections 17, 19 and 32B. That is the reason why these specific sections are mentioned in our presentation.

Mr. STIKEMAN: In essence, I understand your representations to be that a life insurance company which has the peculiar kind of undistributed or earned surplus under the provisions of 4 (g) should be permitted to mutualize its activities and retain the benefits of that capital sum in its corporate form as a mutual company, without the shareholders paying tax on any of that surplus on account of the change from one kind of entity to the other. Is that the substance of your submission?

Mr. DAVIES: Yes. We made a specific suggestion that in the case of our plan of mutualization we would arrange to use only funds in the participating account, which according to section 4 (g) are in any event non-taxable, and since these are policyholders' funds exclusively, and under the present provisions of the Act are not taxable in any shape or form, they could be expended by the policyholders through their trustees to purchase from the shareholders the interest accruing to the shareholders. We were told subsequently, however, that the provisions of 4 (g) could be overruled by other sections of the Act, and these otherwise untaxable amounts would then become taxable if they were used for this purpose. That is what creates the inconsistency.

Mr. STIKEMAN: Is it not true, however, that the income exempted under 4 (g) is the income of the life insurance company, and not the income distributed in any form whatever to a shareholder of that company.

Mr. DAVIES: 4 (g) so far as life companies are concerned merely says what shall be taxed.

Mr. STIKEMAN: To the company?

Mr. DAVIES: Of course in that event by the company.

Mr. STIKEMAN: And your plan would involve payment to the policyholders in stock?

Mr. DAVIES: That is right.

Mr. STIKEMAN: Which would appear to be another question entirely from the one whether that surplus is taxable to the company or not. I think probably we shall hear from Mr. Elliott in due course. But from the facts which you have put forward, it seems to me you are asking that life insurance companies should be permitted to distribute to their shareholders funds, which in the hands of a commercial company would be considered earned or undistributed surplus, without incurring any tax upon their shareholders. You prefaced your remarks by saying that you wish your brief confined to life companies, from which I can only deduce that you would not wish this rather broad exemption to apply to the shareholders of ordinary commercial concerns: is that a correct interpretation of your remarks?

Mr. DAVIES: No, I would say your interpretation is incorrect on two points. First, we are not suggesting that distributable income should be exempt from taxation. We are suggesting that only funds which in any event are not taxable should be permitted to pass into the hands of shareholders without taxation either before or after the event of such payments. Certainly, we are not asking for a broad exemption as you suggest; we are asking for what I consider to be a very narrow exemption. The exemption would apply only in the case of mutualization plans, preceded by Acts of Incorporation,—Acts of Incorporation which have been passed upon by this Parliament.

Mr. STIKEMAN: Let me consider your first question. You say you are attempting to maintain an exemption of funds in the hands of shareholders which in any event, you say, are exempt. When you say they are exempt