some provinces companies are prohibited from making such loans directly and must do so through a financial institution. Another change will exclude any benefit on housing loans made to persons moving from a location outside Canada.

Surplus Stripping

The Income Tax Act contains special provisions designed to prevent surplus stripping — that is, the tax-free distribution of corporate earnings through a series of transactions involving the sale of shares. One of the rules applies on the sale of shares of one corporation to another by shareholders who act in concert to control the purchasing corporation. The rule presents a number of problems from the point of view of administration and compliance. A change is proposed to eliminate the "acting in concert" rule. The existing provisions relating to surplus stripping will be extended to those situations in which, immediately following a non-arm's length sale of shares, the purchasing corporation owns more than a 10 per cent interest in the corporation whose shares it acquired.

Reduction of Capital

To prevent the possibility of an unintended tax deferral on distributions by public corporations, a change is proposed to treat as a dividend a payment made to a shareholder as a reduction of capital except where the capital reduction takes place on the redemption or cancellation of the share, on the reorganization of the capital, or the winding-up of the corporation.

Insurers Branch Tax

A special 25 per cent branch tax applies to non-resident insurance companies carrying on business in Canada. To implement a change announced in the March 31, 1977 budget, the branch tax provisions are amended to limit the amount by which an insurer can reduce its Canadian investment fund — that is, the assets producing income subject to Canadian corporate tax. Thus an insurer will only be able to reduce his Canadian investment fund to the extent his surplus exceeds a level to be prescribed by regulation. This change is designed to bring the tax treatment of non-resident insurers into agreement with that accorded resident insurers.

Life Insurance Company Losses

A change is proposed to deal with losses of certain life insurance companies. The existing provisions in the Income Tax Act deny the carryforward into 1978 of losses and deductions from prior years to the extent that they arose as a result of the deduction of certain reserves in those years. The technical formula by which this is achieved produced a