1949, now you say that with respect to accumulation since 1949 you have to follow section 105(2), which is the matching dividends?

Mr. HARMER: Yes.

The CHAIRMAN: Then what you are saying in relation to the 1949 surplus, is that if bad years after 1949 have reduced the amount of that or you have paid some of it out in dividends, then you can clear the balance by paying 15 per cent?

Mr. HARMER: Yes.

Senator BAIRD: That is section 95(a)?

The CHAIRMAN: Well, it was 95(a); it is now called section 105.

Senator BAIRD: In other words, if a person acted under section 95(a) and they got a surplus since that time, are they permitted to withdraw that surplus by paying a tax of 15 per cent?

The CHAIRMAN: No.

Senator BAIRD: Well, if they have not declared any dividends they are not entitled to anything?

The CHAIRMAN: Well, there is a method; they can pay out and match, yes. But section 39 is limited. If you want to disburse 1949 earnings at the end of 1949 in the year 1957, when this bill becomes law you can do it by paying 15 per cent on what you have left of the 1949, rather than with all the amount that you had at the end of 1949. Isn't that right?

Mr. HARMER: That is correct.

Section Agreed to.

The CHAIRMAN: Subsection 2 is consequential.

Some SENATORS: Carried.

The CHAIRMAN: Subsection 3 is also consequential.

Some SENATORS: Carried.

The CHAIRMAN: Subsection 4, on page 29. Would you explain that, Mr. Harmer?

Mr. HARMER: Well, the present law prohibits a subsidiary controlled corporation from matching its dividends, because any dividends it pays are not taxable. However, there are some subsidiary controlled corporations that became such after 1949. The object of this is to allow them to match dividends which they paid before they became subsidiary controlled corporations, which dividends would have been taxable.

The CHAIRMAN: Well, that is beneficial.

Some SENATORS: Carried.

The CHAIRMAN: Then subsection 5 is consequential.

Section 39 agreed to.

On Section 40.

Dr. EATON: This is to take care of a company which was an ordinary operating company before it became a non-resident owned investment corporation, an investment corporation that cannot carry on business, and during that period it had accumulated and earned surplus; then it became a non-resident owned investment corporation. Now, a non-resident owned investment corporation is taxable currently at 15 per cent. As the income moves out there is no tax. The 15 per cent non-resident tax is moved inside the boundary and put on currently on the corporation, and when the income moves out there is no tax. Now, in the case of a company that had an earned surplus before it became one of these things it moves into this position of paying 15 per cent currently and pays nothing on the movement out of funds. When