IIF. It is clause 28 of the bill—page 47 of the old bill and page 51 of the new bill. This adds a new section 105R and several succeeding sections to the act. Subsection 1 of section 28 is the charging subsection. This imposes the tax of 15 per cent on taxable Canadian life investment income.

I should like, if I may, to present the rest of it in a summary way and then come back to give the references where they can be found in the bill. You start off with the gross Canadian life investment income, and in your first step—

Hon. John J. Connolly: For each company?

Mr. Hayden: Yes, for each company. The next step is to arrive at the net of the gross life insurance investment income.

Hon. Mr. Isnor: What is the definition of the net?

Hon. Mr. Hayden: I was just going to tell you. You then make certain deductions. I will fill in the details afterwards. I just want to give you the skeleton first.

You start out with the gross, and then the first step you take by way of deductions will get you to the net. The next move on your way to settling the amount which is going to be taxed is to move to the stage of taxable Canadian life insurance investment income. Having reached that step and having arrived at an amount, you thén calculate the tax on the 15 per cent basis. After doing that you will end up with a certain amount of tax. You then subtract from that amount of tax the deductions which are set out in the bill, as being deductions from tax.

This is in the order in which I feel it is intelligible to follow. The order in the bill is different. They start out right away with deductions from tax, and additions, and inclusions from income. It is really puzzling and one would have to burn the midnight oil to figure it out.

Hon. Mr. Connolly (Ottawa West): Would the honourable senator permit a question at this stage?

Hon. Mr. Hayden: Go ahead.

Hon. Mr. Connolly (Ottawa West): First of all, when he talks about deductions from tax, he is making a contrast, I take it, between deductions from income before tax is computed and deductions from tax after tax is computed, and the scheme of the bill is the latter scheme. Am I correct so far?

Hon. Mr. Hayden: No. As you will find out, you first arrive at the gross life insurance investment income, then the next step in the journey is to arrive at the net. In order to do this, you deduct expenses directly related to the management of the investment portfolio, including interest paid to policyholders. You deduct a capital cost allowance, which may be in relation to rental income from property. You can deduct 50 per cent of other deductible expenses, other than policy reserves, policy dividends, investment income tax, provincial premium tax and claims paid under the policy and group insurance.

The first part pertains to expenses directly related to the management of the investment portfolio, including interest paid policyholders, capital cost allowances and 50 per cent of other deductible expenses other than the list I gave you. Those are deductible items which, when itemized and deducted, will bring the gross life insurance investment income down to the net Canadian life insurance investment income.

Hon. Mr. Connolly (Ottawa West): Perhaps I should have asked this question first. I take it we are restricting our consideration of this problem to the investment income only of the insurance company.

Hon. Mr. Hayden: That is right.

Hon. Mr. Connolly (Ottawa West): We are not discussing the income that comes from the normal source of business.

Hon. Mr. Hayden: No, this is investment.

Hon. Mr. Connolly (Ottawa West): Just investment income.

Hon. Mr. Hayden: There is a definition, if I can find it here.

Hon. Mr. Grosart: I think it is clause 28. The definitions are just before the end of the amendments indicated in clause 28. That is immediately preceding clause 29, pages 55, 56 and 57. The definition section is on page 56.

Hon. Mr. Hayden: First, you start with the definition of gross investment revenue:

> ..."life insurance policy", "life insurance policy in Canada", "maximum tax actuarial reserve", "non-segregated property", "property used in the year in or held in the year in the course of" carrying on an insurance business in Canada and "relevant authority"...