PART II.—The income of credit unions is exempt from tax under Section 4, paragraph (q) of the Income War Tax Act. However, there were some tax difficulties because of the organization of federations and because of the fact that, due mainly to investment in Victory Loans, a large part of the income was coming from interest on investments. The deduction of personal income tax at the source, at the rate of 7 p.c. on share dividends, was considered a troublesome nuisance because a large proportion of the members were not liable for tax and the amount deducted had to be claimed from and refunded by the Government.

The Commissioners recommend that the relevant Section be amended to make it clear that the exemption applies to federations and that exempt organizations must derive their revenue primarily from loans to members.

The Commissioners also suggest that the 7 p.c. deduction on dividends be discontinued. Happily, the first peacetime Budget brought down by the Minister of Finance ended deduction at the source on all dividends so that item does not require special legislation.

PART III.—The Commission inquired into the applications of income and excess profit taxes to insurance companies operating on a mutual basis. Their enquiry was limited to the business of fire, casualty and automobile insurance and did not extend to life or marine insurance.

Section 4 of the Income War Tax Act provides that the following shall not be liable to taxation:—

"Mutual Corporations

"(g) the income of mutual corporations not having a capital represented by shares, no part of the income of which insures to the profit of any member thereof, and of life insurance companies except such amount as is credited to the shareholders account.

"Farmers Associations

"(i) the income of such insurance mortgage and loan associations operated entirely for the benefit of farmers as are approved by the Minister."

As with trading associations, the Commission found a variety of methods in operation such as the premium note plan, the cash premium plan, the deposit plan and the reciprocal exchange plan. In the opinion of the Commissioners the control of a mutual and participation in its surplus, if any, is vested in those who use its services as policyholders and in the case of those operating on the cash premium plan the "dividends" are akin to patronage refund paid by trading associations. However, they found that the mutuals do have income from investments and operating gains which are free from claims of policyholders. They also found that the mutuals specialized in farm and other unprotected rural risks.

Accordingly, the recommendations made are somewhat similar to those made in the case of trading associations, namely, that income be taxed but that before determining taxable income there be deducted dividends and/or refunds of premiums and any unabsorbed premiums or deposits returned to policyholders. Such refunds may be paid in cash, applied on renewal premiums or credited to policyholders in such a way that they may be withdrawn upon demand. In addition, the Commissioners recommend complete exemption in the case of any insurer when more