

annuities. The only other tax is the tax on profits accruing to the shareholders of Canadian companies through their shareholders' accounts under the Income War Tax Act; the amount of that tax in 1945 represented approximately 0.3 p.c. of the Canadian premium income and 0.2 p.c. of the total premium income of those companies.

The tax on fire and casualty companies' profits has enjoyed no similar exemption; the profits of those companies have been subject to income and excess profits taxes in much the same way as the profits of other industries. The only exception to this is that heretofore purely mutual companies have been entirely exempt and with the growth of that group of companies the burden of taxation on joint stock companies has been a form of discrimination of which the latter group has complained.

The Royal Commission on Co-operatives, which conducted its investigation into the question of taxation of co-operatives generally, received representations on the insurance aspect of the question and in their Report of Sept. 25, 1945, they recommended:—

"1. That the Income War Tax Act and The Excess Profits Tax Act (1940) be amended to provide for the taxation of mutual organizations carrying on the business in Canada, of fire, casualty and automobile insurance, in accordance with the recommendations which follow.

2. That dividends on, or refunds of premiums to policyholders, whether paid in cash or applied against renewal premiums, together with any unabsorbed premiums or premium deposits returned to or payable to policyholders, and any other amount credited to a policyholder or subscriber in such a way that it is exigible by him on giving such notice as may be deemed reasonable, be allowed as a deduction in computing taxable income.

3. That joint stock companies and other insurers writing fire, automobile and casualty insurance, which pay dividends or make refunds of premiums to policyholders be allowed to deduct such dividends or refunds in computing taxable income."

Following that recommendation, the Income War Tax Act was amended to remove the purely mutual fire and casualty companies from the exemption [(1946) c. 55, s. 3, amending s. 4(g)] and to permit the deduction from taxable income by any such company, stock or mutual, of dividends to policyholders which during the taxation year were:—

"(a) paid to the policyholder;

(b) applied in discharge, in whole or in part, of any liability of the policyholder to pay premiums to the insurance company; or

(c) credited to the account of the policyholder on terms that he is entitled to or may obtain payment thereof within a period not exceeding thirty days after demand for payment by him, if notice of crediting upon such terms has been given to the policyholder by the insurance company."

[*ibidem*, s. 4(12), enacting s. 5, ss. (7)]

An exception to the foregoing is that of the company that derives from the insurance of farm property not less than 50 p.c. of its net premium income; such a company is exempt from income tax.