Mr. HEAPS: Would not the term "gross profits" be more appropriate?

Mr. ILSLEY: Perhaps so. We shall have to consider that very carefully. I admit there may be some difficulty about it.

Paragraph agreed to.

9. That (a) an investment holding company all of whose shares (qualifying shares excepted) are held by non-resident persons shall not be afforded the exemption provided by paragraph (k) of section four of the act, but shall be subject to a tax equal to one-half of the prevailing corporate rate of tax imposed upon Canadian companies;

(b) the five per cent tax on dividends paid to such non-resident shareholders by such investment holding company shall not apply, except as hereinafter provided;

(c) in determining the taxable income of such investment holding company a deduction shall not be allowed in respect of any interest payments or of taxes paid abroad;

(d) any five per cent tax paid by such companies in nineteen hundred and thirty-five shall be allowed as a deduction from the tax otherwise payable in respect of the said year;

(e) to the extent that five per cent tax has not been incurred in respect of the earnings of nineteen hundred and thirty-three, nineteen hundred and thirty-four and nineteen hundred and thirty-five, the five per cent tax shall continue to be imposed until the undistributed accumulated earnings of the said years have been made subject to the said tax;

(f) paragraph (k) of section four of the act shall be amended to apply to industrial and commercial operating companies only;

Mr. DUNNING: In connection with this item, last evening I filed a proposed amended wording for paragraph 9 which appears in the votes and proceedings of this morning. The amended paragraph 9 is as follows:

9. That,—

(a) an investment holding company substantially all of whose shares are beneficially owned by non-resident persons shall if it so elects be subject to a tax equal to one-half of the prevailing corporate rate of tax imposed upon Canadian companies, provided however that income received from another such investment holding company, the income of which has been taxed as provided in this resolution, and one-third of the income received by way of dividend from Canadian companies which have been taxed at the prevailing corporate rate shall be exempt from tax;

(b) the five per cent tax imposed under section nine B of the act on dividends paid to such non-resident shareholders and on interest paid to non-resident persons by such investment holding company shall not apply except as hereinafter provided;

(c) in determining the taxable income of such investment holding company, a deduction shall not be allowed in respect of any interest payments and any deduction allowed in respect of taxes paid abroad shall not exceed one-third of the tax imposed by any enactment founded on the provisions of this resolution;

(d) any five per cent tax paid by such companies under section nine B of the act after the coming into force of any enactment founded on the provisions of this resolution otherwise than in accordance with the provisions of paragraph (e) of this resolution shall be allowed as a deduction from the tax otherwise payable thereunder;

(e) to the extent that the five per cent tax imposed under section nine B of the act has not been incurred in respect of the earnings of nineteen hundred and thirty-three and nineteen hundred and thirty-four the five per cent tax shall continue to be imposed until the undistributed accumulated earnings of the said years have been made subject to the said tax;

(f) paragraph (k) of section four of the act shall be amended in such manner as to limit its application to industrial and commercial operating companies and to investment holding companies the shares of the capital stock of which have been offered for public subscription or are listed on any recognized stock exchange in Canada or elsewhere;

(g) the proviso to subsection one of section nineteen of the act shall be repealed.

This is an effort to deal with the situation of holding companies owned by non-residents of Canada and having no assets in Canada. The title "4 (k) companies" has come to be applied generally to all those companies which have taken advantage of paragraph (k) of section 4 of the Income War Tax Act. I need not read the paragraph, except to say that the qualification is the income of incorporated companies, except personal corporations, whose business is carried on and whose assets are situate entirely outside of Canada, and so on. This provision was placed in the act in 1918 to meet the case of certain industrial or commercial operating companies which were incorporated in Canada but which were carrying on business in foreign countries and which had their assets situated wholly outside of Canada. The provision, however, has been taken advantage of by two classes of companies for which it was not originally intended: First, personal holding companies incorporated in Canada to hold the assets of a foreign individual or a foreign individual and his immediate family, and second, financial or investment companies holding securities representing ownership of or interests in enterprises located in various countries of the world and whose own shares, frequently listed on one or more of the world's stock exchanges, are widely held by individuals in various countries. This latter class of companies chose to incorporate in Canada rather than in a number of other countries which were open to them because they found it advisable to do so in view of our laws and the political stability of this country.

Up to 1933 all "4 (k) companies" paid no tax under our income tax legislation. In 1933 a five per cent tax was imposed on interest or dividends paid by Canadian corporations to