

fore such a group of companies made composite returns, and the losses of the one company were deducted from the profits of the other. It is now provided that if such a course as that is adopted the tax will be thirteen and one-half per cent instead of twelve and one-half per cent.

Right Hon. Mr. GRAHAM: They may have smaller profits then.

Right Hon. Mr. MEIGHEN: Those groups within which there are companies making losses will be able to deduct those losses from their profits, by means of the composite return; but they will have to pay a tax of thirteen and one-half per cent.

Clause 2 of the Bill removes entirely the old provision that a man was a householder and became entitled to the exemption of \$2,000 if he came within either of the two definitions appearing opposite page 3 of the Bill. A man might be a bachelor, but if he chose to enjoy the luxury of a separate house he came within the definition and got the benefit of the \$2,000 exemption. It was not felt that such a man was entitled to this exemption merely because he chose such a way of living; so he is deprived of this privilege. A subsequent clause, which honourable members will find on page 4 of the Bill, makes certain, however, that any person who, to repeat the language of the second part of the definition—maintains a self-contained domestic establishment and who actually supports therein one or more individuals connected with him by blood relationship, marriage or adoption—

shall be entitled to the \$2,000 exemption.

Section 3 of the Bill repeals the exemption from income tax of military, naval or air force pensions. Income received from such sources is to be upon the same plane as any other income, and is taxable. Honourable members will recall that this plan has been adopted as a substitute for the original plan of making one who received a Government salary and a pension choose the one or the other.

Section 4 of the Bill reduces from \$2,400 to \$2,000 the exemption for married men and others who maintain establishments where they support blood relations. In the case of a single man or woman the exemption is reduced from \$1,200 to \$1,000. The allowance for each child or dependent relative is reduced from \$500 to \$400.

Section 5 reduces from \$1,200 to \$1,000 the exemption of the husband and wife who have each a separate income.

Hon. Mr. HORSEY: That \$400 exemption for dependents applies only, I suppose, where they are mentally or physically dependent?

Right Hon. Mr. MEIGHEN.

Right Hon. Mr. MEIGHEN: It applies to relatives who have to be supported, and, I understand, although I do not see the explanation here, only to the extent of the support given, with a maximum of \$400.

Section 6 is worthy of attention. It provides that the carrying charges on productive property the income of which is exempt from taxation shall be deducted from that exempted income. That is to say, where a company held by an individual has a block of tax-exempt bonds and the management of the company entails a certain amount of expense, a proportion of that expense shall be chargeable against the income from the tax-exempt bonds; the whole amount shall not be charged against taxable income.

Section 7 enables the Minister to annul a charge made by a company for salary, or the like, where in his judgment it has been given not for services rendered, but in order to reduce the amount of taxable income. Foreigners may own a Canadian company, and in order to conceal taxable profits they may pay themselves fantastic salaries and thus dodge the taxation. This provision will circumvent that subterfuge, to adopt the phrase of the right honourable senator opposite.

Section 8 eliminates the \$2,000 exemption to which a company previously was entitled before its income was taxable. This is a section to which perhaps some objection could be taken. The main objection to the abolition has been that it gives an undue advantage to a partnership or an individual competing with an incorporated company.

Then come the provisions as to the application of the five per cent tax on dividends paid in Canada in a currency which is at a premium in relation to Canadian currency. This tax does not apply in respect of tax-free Dominion bonds, nor to interest or dividends received by the provinces or municipalities. This section also imposes a five per cent tax on dividends received by foreigners in Canadian currency from Canadian properties or investments, but is not applicable to income received from the Dominion of Canada.

Right Hon. Mr. GRAHAM: Is that the section to which Great Britain objected?

Right Hon. Mr. MEIGHEN: Yes, and as a consequence, I presume, of the roar that was made, the bonds of the Dominion of Canada are exempt. I hope I have made myself clear.

Hon. Mr. HORSEY: Suppose the exchange on American funds should be one or two per cent, should we still have to pay five per cent?