

This amendment allows them to elect, even though the corporation may come within the definition, to be a taxable corporation, to pay taxes. The result will be that shareholders will get a tax credit—

Hon. Mr. HUGESSEN: In respect of dividends they receive from the company?

Dr. EATON: Yes.

Hon. Mr. LAMBERT: Does it come under the 10 per cent provision?

Dr. EATON: Yes.

Section 31 was agreed to.

On section 32—"Non-resident-owned investment corporation".

Dr. EATON: Subsection 1 deals with N.R.O. Companies, that is, non-resident-owned investment corporations. In the past a company was disqualified if it made loans or carried on an active business in Canada. The law said that investment companies were actually carrying on business if they made small loans. The criterion was, small loans up to \$500. The result was that companies could split up into two parts, one making loans up to \$500 and the other picking it up from \$500. In that way they could qualify, and pay 15 per cent instead of 33 per cent.

Hon. Mr. HAYDEN: The company could still qualify as an N.R.O. Company and have loans outstanding, but it could not have the principal business of making loans.

Dr. EATON: Yes, sir.

Hon. Mr. HAYDEN: As to subsection 3, I am not so much concerned about the substance of it, but I am about the method that is being employed, namely, the declaration in relation to the Income War Tax Act. I take it that in the department there has been a practice under the Income War Tax Act to enforce a certain course of action in respect of the subject matter of subsection 3. Now you are a little concerned about whether you had the legal authority to do it. What you are saying and declaring is that it was always the law.

Hon. Mr. CAMPBELL: Does this not arise as a result of a sort of slip-up in the drafting of the section in the last act?

Dr. EATON: Yes.

Hon. Mr. CAMPBELL: I don't know how it arose.

Dr. EATON: I can tell you how it arose. In 1946 the budget resolution stated the principles under which the tax arrangement with respect to non-resident corporations would be re-organized and simplified. Under the old system a non-resident corporation which paid a tax of 22½ per cent was allowed a credit of one-third in respect of Canadian dividends and one-third of the foreign tax paid by it. The end result of these two provisions gave in most cases an effective tax of 15 per cent. The proposed revision was to establish the rate at 15 per cent and withdraw the other credit provisions, and that was clearly stated in the budget resolution. But the draftsman came along and incorporated the provision for withdrawing the one-third tax credit but omitted altogether in section 4 (n) to withdraw the credit to one corporation receiving dividends from another; he forgot to amend it to disallow the N.R.O. from getting the credit. The new provision was acceptable generally, lower rate with no credit, but there was a technical omission in another provision in the law which they subsequently raised and said, "How about this provision?"

Hon. Mr. HAYDEN: I can understand coming in here and wanting to correct a mistake or omission. But this refers to the Income War Tax Act.

Dr. EATON: Entirely.

Hon. Mr. HAYDEN: And to come in here some years afterwards and say "We do not want the law to be what the statute says the law was, because that was a technical omission—"