

really take twenty-five per cent of the capital of the investment?

Sir THOMAS WHITE: My hon. friend is confusing ideas, if he will permit me to say so. The net profits of a company are one thing; what is done with those net profits is another, and very different thing. If a company makes \$100,000 of net profits it has made \$100,000, whether those net profits are retained in the form of cash, distributed to shareholders, or invested in a war loan. The assessment is not upon the investment into which the net profits find their way, but upon the amount of the net profit. Therefore, a company, in the case my hon. friend has in mind, would be liable for its net profits, no matter how it invested them; but, having invested them in bonds of the Dominion war loan, those bonds become a portion of the earning investment of that company, and interest derived from them would not be a part of the net profits which would be subject to taxation. That is the view I would take of the proposition of my hon. friend.

Mr. CARVELL: According to that, the principal invested in the war loan would be taken by the Government to satisfy the provisions of this measure.

Mr. A. K. MACLEAN: In that case the profits would be \$100,000.

Sir THOMAS WHITE: We would not be assessing the principal of the bonds; we would be assessing the net profits made by a company which it afterwards invested in bonds.

Mr. LOGGIE: The minister would be assessing the principal if he did not deduct the principal from the capital. Unless he deducted the portion of the capital with which the bonds were bought from the capital, and then applied the rate of interest, he surely would be assessing the capital.

Sir THOMAS WHITE: I think not. We are not assessing capital but net profits.

Mr. CARVELL: Does not the minister think that under this arrangement he is appropriating to the use of the Government moneys which he promised three or four months ago should not be subject to taxation for Dominion purposes?

Sir THOMAS WHITE: I certainly do not.

Paragraph 5 agreed to.

On paragraph 6:

6. That the capital employed in the trade or business of an incorporated company having its office or other principal place of business in Canada shall be the amount paid up on its capital stock.

Mr. A. K. MACLEAN: According to the statement of the minister this afternoon, which, of course, must be accepted, borrowed capital will not enter into the computation of capital—bond issues, of course, represent a liability and not part of capital. But suppose the case of a company having a nominal share capital of \$10,000 and a bond issue of \$1,000,000. Such a company does business on the capital derived from the sale of the bonds. Except in the case of its engaging in munitions contracts, it would not come within the provisions of the Bill?

Sir THOMAS WHITE: Not if its capital was only \$10,000.

Mr. MACLEAN: That is a case where the treasury would fail by not considering borrowings as capital.

Sir THOMAS WHITE: No, but where the hon. gentleman's case fails is that a company with a capital of \$10,000 could not make a bond issue of \$1,000,000.

Mr. MACLEAN: It is possible.

Sir THOMAS WHITE: But not at all probable.

Mr. NESBITT: Section 8 says:

Where stock was issued before the first day of January, one thousand nine hundred and fifteen, for any consideration other than cash, the fair value of such stock on such date shall be deemed to be the amount paid up on such stock.

That is rather contradictory, is it not? In the course of the Budget debate reference was made to companies that issued common stock with nothing paid up. What is the use of that part of the clause? Besides, it is practically repeated later in the section, as it goes on:

And where stock has been issued since the first day of January for any consideration other than cash, the fair value of the stock at the date of issue shall be deemed to be the amount paid up on such stock.

Sir THOMAS WHITE: One is before 1st January and the other after. If there is any excess, it will be in reserve. If the amount should by any chance exceed the par value of the stock, it would still be a part of the capital by reason of being part of the "reserve, rest or accumulated profits" of the company.