

stock equal to what he borrowed; then he has no income at all. As an individual he would have to pay under this Act.

Hon. Mr. ROSS: But he has no annual profit.

Hon. Mr. EDWARDS: That is perfectly true; hence I think it is highly desirable to say "net income," because that would determine that case precisely.

Hon. Sir MACKENZIE BOWELL: Suppose a man paid the bank up, would he have income?

Hon. Mr. EDWARDS: If he once paid the bank, the stock would be his property then, and he would have an income.

Hon. Sir JAMES LOUGHEED: True, the man enjoys an income, but why should he pay for the stock out of the income?

Hon. Mr. EDWARDS: He owes the bank the money borrowed.

Hon. Sir JAMES LOUGHEED: But he is creating capital by paying for the stock.

Hon. Mr. EDWARDS: Suppose a man receives \$5,000 of income from certain stock, but is paying the bank on a loan interest to an equivalent amount, or a less amount?

Hon. Sir MACKENZIE BOWELL: If the man borrowed from the bank at 6 per cent and the stock paid him 8 per cent, what would you do?

Hon. Mr. EDWARDS: He would have to pay on the 2 per cent.

Hon. W. B. ROSS: The interest that he pays would be deducted from the money that goes to income.

Hon. Mr. POWER: I think it must be pretty clear to the committee that the wording of this clause is not ideal. Here are a number of astute lawyers and keen business men who do not seem to see quite distinctly the meaning of the clause. How, then, can we expect people who have not those advantages to know what it means? I think the amendment suggested by the honourable member from De Lorimier is a very judicious one. Every one has a fair idea of what net income means, and if you are going to tax net income, as I think is intended, the right thing is to say so. Moreover I cannot see why the people who happen to be doing business and residing in Canada should be treated differently from persons who reside outside of Canada. Subsection 3 provides that non-residents' income shall be net pro-

fit or gain; why should not the same words be used in the case of residents of Canada? As the honourable gentleman from De Lorimier says, either the first or the third subsection must be changed, for there is no reason why a man living outside of Canada should be in a better position than one living here.

Hon. Mr. BEIQUE: I understood from the honourable member for Middleton (Hon. W. B. Ross) that this Bill is drafted on the basis of taxing total receipts less the deductions.

Hon. W. B. ROSS: No; in section 3 (1) the words in line 2 are "the annual profit or gain."

Hon. Mr. BEIQUE: Take the case of a joint stock company, are we agreed that what should be taxed are the net profits of that company? And suppose the company has borrowed \$50,000, the interest payable yearly on the amount borrowed will be deducted for the purpose of ascertaining the amount upon which the tax will bear. It seems to me that the same rule should apply to the individual. Take two individuals, A and B, each of whom owns a number of properties that are rented. In one case the tenants pay taxes, and in the other the owner pays them. Under this wording I fear they would not be treated equally. Unless we adopt the words "net income" in one case the taxes would be deducted in fixing the income, and in the other case there would be no deduction because the owner is not paying taxes. In the United States they have gone further and have undertaken to designate what is the net income. Take also the case of two bank clerks, each receiving \$5,000 salary, one occupying his own house, which is clear from incumbrance, the other being subject to a mortgage of \$5,000. Surely interest on that \$5,000 would be deducted before the second clerk would be taxed on the amount of his salary. A number of such cases might be cited to show the necessity of determining whether the tax should be on net income or not.

Hon. Sir MACKENZIE BOWELL: I should like to put this question to my honourable friend from Ottawa (Hon. Mr. Edwards). Suppose a man borrows from a bank \$10,000 to invest in buying stocks, and pays 6 per cent for the loan, and draws 6 per cent from the investment, there would then be no profit?

Hon. Mr. EDWARDS: No.