the result that while part of the profit ultimately derived is actually attributable to the work done upon the commodity in Canada, it is very doubtful whether as a matter of law any part of such profit can be said to be earned in Canada. The purpose of this section is to enable the Canadian treasury to tax upon a fair part of the profits derived when the goods are finally sold abroad.

Mr. HANSON: Following that up may I ask whether that would apply to a case where a Canadian company owned and operated, we will say, a sulphite pulp mill and also owned and operated a paper mill south of the line, and shipped sulphite pulp either as a finished product or as a merchantable commodity, or in a soft state, to that mill across the line? Would the subsection apply to such a transaction as that because the product is a finished product when it leaves the Canadian mill?

Mr. ROBB: It would be determined by the fair market value of the pulp. In practice we have discovered that there are companies doing logging in Canada who move their logs to mills in the United States, but put the logs in their return at a reduced cost. We propose to give the department power to determine the fair market value of these logs in Canada.

Mr. MARLER: There is no intention in this section of taxing the income of a non-resident except as already taxed under the existing act?

Mr. ROBB: No.

Mr. MARLER: There is no question of defining domicile at all.

Mr. ROBB: None whatever.

Sir HENRY DRAYTON: It looks to me as if this were a proper subsection. It merely seeks to guard the revenue.

Mr. ROBB: We are safeguarding the revenue.

Sir HENRY DRAYTON: That ought to be done wherever the law is found to be weak.

Section agreed to.

On subsection (c)—Proviso, "carrying on business."

Mr. ROBB: This would not affect a house carrying on business generally without any branch houses outside.

Section agreed to.

On subsection 3, paragraph (b)—Non-residents deemed to be carrying on business.

[Mr. Robb.]

Mr. MARLER: Would the minister explain this paragraph a little more fully?

Mr. ROBB: As the law appears to be at present a foreign business house selling goods in Canada through an agent or employee is in many cases not taxable owing to the actual contract being completed abroad. The object of the proposed amendment is to overcome the effect of this technicality and to ensure that the Canadian treasury will receive income tax upon profits made from Canadian business even although the formality of closing the business should take place abroad. It is further to be noted that foreign corporations closely allied with Canadian operating companies lease, or under royalty permit the use of land or certain articles on which they charge the operating Canadian company a rental or royalty at such a high figure that the profits which should be reflected from the operations of the Canadian company are eaten up by the high rentals and royalties paid and thus the profit goes abroad free from taxation. The object of this amendment is to render the income from such letting, leasing and royalties taxable because their source is from within Canada. The treasury should be benefited by the profits thus made in Canada. It follows that in the determination of such matters the minister—which in this case means the commissioner in charge—must have some discretion as to determining the profits earned in Canada, especially when considering the foreign expenses and their proportionate part applicable to foreign and Canadian products.

Sir HENRY DRAYTON: Is this following the English act or the American act?

Mr. ROBB: Partly both.

Sir HENRY DRAYTON: It seems to me it is a mixture of both.

Mr. ROBB: Yes, both.

Sir HENRY DRAYTON: Under the English act, for example, in connection with the matter of agencies, there would be no trouble at all. I think the minister has—in fact, I am sure he has—run across troubles similar to those we had with the Imperial taxation authorities at Somerset House in connection with charges made as to business carried on in England. I had in mind, for example, a case where the whole of the process was entirely carried on in Canada, and the ordinary profits entirely earned in this country. The Canadian Excess Business Profits tax was offset entirely in consequence of the desire of Somerset House to treat the