

Sir THOMAS WHITE: Now, take the smaller company that leased the plant of the other company and got the war orders. For the period that it was carrying on that business it would be liable, under the provisions of this measure, if its profits were sufficiently large.

Mr. GRAHAM: Supposing it has disappeared.

Sir THOMAS WHITE: A company cannot disappear so as to get rid of its liabilities. If it is still in existence and has turned over its assets to the other company, presumably the other company has assumed its liabilities.

Mr. GRAHAM: I will not say that for sure. The matter is very complicated.

Sir THOMAS WHITE: Otherwise that company would be liable to be thrown into liquidation; that is, the smaller company which was formed and which made the profits would be liable during the period in which it made the profits; and, if the older company makes profits on the contracts which have recently been assigned to it by the new company, of course it would be liable during the accounting period for its earnings if they exceeded 7 per cent on its capital.

Mr. GRAHAM: The profits may be so arranged between the two companies that neither company will come under the taxation.

Mr. CARVELL: Mr. Chairman, before you proceed to the next section, I would like to ask the minister if he will be a little more explicit in regard to one proposition than he was before, as reported on pages 1920, 1921 and 1922 of Hansard. The proposition is as to the right which the minister would have under this measure of taxing profits which have been invested in the Dominion war loan. It was discussed, but I was not here at the time, and on reading over the discussion in Hansard, I was not able to form an exact opinion as to what the minister had decided. I will give him a concrete case. A company has been carrying on an ordinary business and making some profits, and, let us say, it had taken its actual profits out of the business and invested them in the Dominion war loan during the months of October and November last. Of course, that would not prevent a minister from having legislation passed now making that portion of the profits liable to pay its share

[Mr. Graham.]

of this taxation, just the same as any other profits, but at the time the war loan was being asked from the people of Canada, it was advertised in all the newspapers and stated by the Government that the money invested in those Dominion bonds would not be subject to taxation so far as the Dominion of Canada was concerned. I suppose the idea was that, in case an income tax, or any other method of taxation were adopted later on by the Dominion Government, such investments would be exempt, although, of course, they could not be exempted from provincial taxation. Assuming that the actual profits of the business, which otherwise would come under the provisions of this measure, had been invested in the Dominion war loan under those conditions, would the minister say that such a company should pay one-quarter of those profits under these provisions?

Sir THOMAS WHITE: The net profits of a business, no matter how invested, would be liable under the provisions of this legislation; but, in so far as the net profits consisted of interest and returns upon the Dominion war loan, they would not be taken into consideration.

Mr. CARVELL: What about the capital invested in the Dominion war loan which actually was the profits of the year's transactions?

Sir THOMAS WHITE: My hon. friend knows the distinction between capital and profits. If a company or a firm buys Dominion bonds, those bonds form part of its capital. We are not taxing capital; we are taxing net profits beyond a certain amount. In so far, therefore, as the net profits of an individual, firm, or company are derived from interest upon Dominion war bonds, they are exempt from this taxation.

Mr. CARVELL: The minister, I think, ought to appreciate my point—at least, I tried to make it clear to him—that it was the net profits of the business that were invested, and invested under a pledge that those moneys would not be subject to Dominion taxation. The minister, I think, intends to convey the idea that the Government will not tax that portion of the profits which represent the interest on the investment, but do I understand him to say that, while he would not tax the income from that investment, he would