

is assessed upon its net earnings, but the shareholders in their assessment are allowed to credit the amount which the company paid in respect of the dividends which form part of their income. Therefore the bondholders in the one case and the shareholders in the other are virtually the proprietors of the two companies and they are both taxed and are taxed upon about the same basis.

Sir WILFRID LAURIER: Did I understand my hon. friend correctly to say that the Bill does not apply to partnerships?

Sir THOMAS WHITE: I am not quite sure as to the sense in which my right hon. friend puts the question.

Sir WILFRID LAURIER: Do you tax a partnership?

Sir THOMAS WHITE: We do not tax a partnership as such. Let us say that A and B are partners carrying on a business. We do not make an assessment against A and B for income which they jointly derive, but we make an assessment against A as to his interest in the income which he derived and his share of the undistributed profits, and against B similarly; and in that way we assess the partners.

Sir WILFRID LAURIER: I would call my hon. friend's attention to paragraph (d) of section 2:

"Person" means any individual or person and any syndicate, trust, association, etc.

The use of the word "association" would seem to include a partnership.

Sir THOMAS WHITE: If my right hon. friend will look at page 4—

Sir WILFRID LAURIER: Yes, I understand that. I asked my hon. friend if partnerships are taxed, and he says that partnerships are not taxed but that partners are taxed. Then, I call his attention to paragraph (a) of section 2. I would imagine that a partnership would be included in an "association."

Sir THOMAS WHITE: I should differ from my hon. friend. The word "association" in its broad meaning might be taken to embrace partnership but I think an association is different from a partnership. Even if the word "association" should embrace partnership, if my right hon. friend will look at page 4, section 4, subsection 3, he will see that it says:

Any persons carrying on business in partnership shall be liable for the income tax only in their individual capacity.

[Sir Thomas White.]

That would exclude partnerships.

Mr. LEMIEUX: I would like to call my hon. friend's attention to paragraph (b) of subsection 1 of section 3:

The proceeds of life insurance policies paid upon the death of the person insured, or payments made or credited to the insured on life insurance endowment or annuity contracts upon the maturity of the term mentioned in the contract or upon the surrender of the contract.

I am informed that there is an Ontario statute which provides that the proceeds of an insurance policy made in favour of a man's wife is not liable to any taxation. Will that be liable to taxation under this?

Sir THOMAS WHITE: My hon. friend is referring to paragraph (b) of subsection 1 of section 3. That is one of the exemptions.

Mr. LEMIEUX: I did not observe that. I notice among the exemptions:

Such reasonable allowance as may be allowed by the minister for depreciation, or for any expenditure of a capital nature for renewals, or for the development of a business.

That I understand.

And the minister, when determining the income from mining and from oil and gas wells, shall make an allowance for the exhaustion of the mines and wells.

There are other businesses in which something akin to exhaustion may take place. Take real estate. A man may buy three or four acres and derive income from their sale, but as the sales take place that source of income becomes exhausted; part of the income is a return of capital.

Sir THOMAS WHITE: Undoubtedly there is a return of capital in such a case, and even if no provision existed in the statute, we should properly make an allowance in respect to the exhaustion of mines and oil wells. In a real estate transaction such as my hon. friend mentioned, a certain amount of the return would be regarded as return of capital and a certain amount as profit. We would deal only with the profit.

Mr. PUGSLEY: From the minister's statement to my hon. friend for Rouville (Mr. Lemieux) it might be inferred that the proceeds of an insurance policy paid to a widow would be exempt. Did he not mean that it would not come in as part of the income for that year, but that later it would be subject to taxation as part of her capital? It becomes capital or principal upon the income from which this statute operates.