to subscribe at par for one share of Bell Telephone. People sold their rights that were inherent in the old issue of shares to subscribe for new shares. It went first to about 5½ or 5¼ and then to 2¾ and up again to 3. I would be glad to know the minister's view as to whether, when a man sold that right that would be income that would be properly chargeable with income tax or whether it would be regarded as an accretion of capital.

Sir THOMAS WHITE: My view would be—but I would not like to commit the department to it—that that is an accretion of capital. He would not be able to sell it at a premium unless by reason of the reserve of the company which would give it a value above par. The company could issue it to him at a premium representing its real value so that he would not be able to sell it on the market at a higher figure than that. Suppose they had issued at 125 and there was no value in the rights on that. That would mean that the company had distributed part of its reserve to its shareholders. They issue stock to the shareholders at 125. Why would it be worth 125? By reason of the value of the assets or earning power of the company. That being the case it would seem to me, speaking off-hand, that that would be an accretion of capital. I do not say that positively, because it often requires a court of last resort to determine whether receipts are assessable as income or should be treated as accretion of capital. It is difficult to answer these questions, which depend upon the interpretation of the Income Tax Act and upon decided cases. But speaking off-hand I would say it is an accretion of capital.

Mr. NICKLE: If the Minister of Finance is correct in his contention, an anomaly is created. Take three instances. First a stock dividend is declared and given as a stock bonus. This has been held assessable as income. That happened to myself last year, therefore I speak with authority. I also happen to be a shareholder in the Merchants Bank of Canada which issued at 150 one share of stock for every four shares held by the shareholder. But before that stock reached us it was worth 195 or thereabouts. There was an increase of 45 a share in that which entitled us to participate in the advantage of the increased dividend and in the reserve and which meant $45 profit on each four shares of stock by virtue of one new share issued. To an extent the same thing occurred in the case of the Bell Telephone Company. It would seem to me that in all these cases the increase in value, that is, the difference between what the stock was sold for to the shareholders and the market value of the stock when sold, should be treated as income and income tax should be paid upon it. I fail to see how a distinction may be made between a bonus of stock issued as bonus without anything being paid by the shareholder and an allotment of stock sold to the shareholder for much less than the market value of the stock. In each case the difference in value in the hands of a shareholder should be treated as income. In regard to the first case to which I directed attention, where stock was granted as a stock bonus and the income tax was collected on it, the result of the transaction was that the holdings of the shareholders were worth proportionately less than before the stock was issued, and yet it was held that being a bonus the tax had to be paid on it. I should be sorry indeed to think that the position taken by the minister was going to be regarded as a rule in relation to these stock dividends or bonuses or allotments to participations in reserve, because certainly it is a very subtle and gentle way of getting around the income tax.

Mr. LALOR: I do not agree with my hon. friend. If stock is worth $45 more in increased value the man who holds it pays an income tax upon the dividend he receives, which must be large or the stock would not be worth so much. If you assess the man for the increased value of the stock and then assess him again on the dividend he receives on the stock you would be assessing him twice, which would be unfair. If the view of the hon. member prevails, any stock which a man held that increased in value could be assessed on the increase. You must assess a man upon the dividend and revenue he gets, not upon the increased value.

Mr. NESBITT: If you pass a law like that there will be no increased value and you will not get dividends.

Sir THOMAS WHITE: It is a legal question which we shall be glad to look into.

Mr. CAHILL: How are the rest funds of the banks treated, as for instance in the case of a bank declaring a dividend of say 8 per cent and putting a rest of a similar amount?

Sir THOMAS WHITE: We assess the banks upon their net profits whether they