

net profits of the firm, would be the interest paid upon the money borrowed from the bank.

Mr. A. K. -MACLEAN: Should they not be entitled to some profit for carrying that liability?

Sir THOMAS WHITE: There is no essential difference between that case and the case of a company that has a bond issue. A company which has a bond issue, which is a liability, is using the proceeds of the bonds which have been sold for the purposes of its business. I do not know how you can call liability capital: they are opposite. Now, take the other case where the money is owed to one of the partners, whether for convenience or because the firm regards it as an advantage. They may allow their profits to go back into the firm, and the position of the firm is legally one of liability. The firm owes money to the individual partner from what it has borrowed, and pays him or them six or seven per cent. Now they would be entitled to deduct that interest from their gross profits in order to ascertain their net profits, but I do not see on what principle we could allow that indebtedness as part of the capital of the firm. My hon. friend says, and says truly, that if that were allowed the ten per cent would apply. Quite true, but I want to point out that one of the criticisms made of this Bill has been that it has been too fair to firms as contrasted with joint stock companies, where the basis is seven per cent. I think, therefore, that partnerships will have nothing to complain of if, being on a ten per cent basis, they are compelled to treat as a liability what undoubtedly is a liability, that is to say, the amount they owe to an individual member of the firm.

Mr. GRAHAM: I see that one of the sections provides that, except under extraordinary circumstances, no salaries will be allowed to directors or managers in excess of that paid prior to 1915. Now, there are some companies that before 1915 were struggling along, and whose directors and president worked for nothing, and in some cases did not even accept their expenses. It strikes me that a case of that kind might well be considered a special circumstance, and that a fair salary might be allowed to the officers and directors of these companies. I see the wisdom of the section, of course. As I understand it, it is to prevent any evasion of the taxation by paying out a large amount of the profits as salaries, but I think in the case of companies I have

[Sir Thomas White.]

mentioned it would be only fair to allow them to pay a fair salary to the directors and president.

Sir THOMAS WHITE: My hon. friend is entirely right in his view. This section is for the purpose of preventing evasion by the payment of large amounts for the clear purpose of reducing the amount liable to taxation. But a balance sheet, while prima facie evidence, should not be conclusive evidence either against a firm being assessed; or against the Government. In the case my hon. friend has in view, undoubtedly a proper allowance should be made in order to ascertain the true profits of the company in question.

Mr. LOGGIE: If a private individual with \$100,000 invested in houses and lands makes a profit of eleven per cent from his rents after paying taxes and repairs, would he have to pay taxes under this legislation? I understood the minister to say the other night that in such a case an incorporated company would be liable, and I want to know whether a private individual would be liable.

Sir THOMAS WHITE: I should say that if he were carrying it on as a business he would be liable; otherwise, we should be getting on an income tax basis. A man might have an income of \$2,000 from real estate, just as a professional man might have that income from his profession. Now, if we had income taxation, undoubtedly in both cases there would be an assessment. The case that was put to me the other night was this: A man ninety-nine years of age has \$100,000 invested in real estate. I said I should be disposed to let a man off who was ninety-nine years old. However, if a man was carrying it on as a real estate business, I think he would be liable under the Act. On the other hand, if he was not carrying it on as a business, I think he would not. I do not think any difficulty is likely to arise, because I do not think any man is likely to make eleven per cent on a fair valuation of the capital invested in real estate.

Mr. TURRIFF: Take the case of a middleman who had made \$100,000 during the present war by getting contracts for war munitions, and letting them out to other parties. This man may not be in business of any kind himself, but be a man of leisure, walking around all the time, as many of them do. Would he be liable under this Act?