

On section 39—redemption by non-resident owned corporation.

Dr. EATON: The underlined words at the bottom of the page, "the corporation's surplus determined in a prescribed manner," are new. The wording of the present subsection is shown in the explanatory note on the opposite page. The new wording enables the department to be more lenient in saying what shall be deemed to be distributable income.

Hon. Mr. HAYDEN: This says "the payment made shall, for the purpose of this part, be deemed to be the payment of a dividend . . ." A dividend is not taxable once the non-resident owned corporation has paid the 15 per cent tax.

Dr. EATON: This does not relate to a non-resident owned corporation.

Hon. Mr. HAYDEN: It does, according to the wording.

Dr. EATON: It is not technically what you and I mean by a non-resident owned corporation, is it?

Hon. Mr. HAYDEN: The marginal note reads, "Redemption by non-resident owned corporation."

Dr. EATON: My mistake, that is correct.

The CHAIRMAN: Section 96 deals with non-resident persons, and section 39 of the bill purports to amend subsections 2 and 3 of section 97; section 97 in turn relates back to section 96. To that extent it must apply to non-residents.

Mr. GAUSIE: Under the old wording it was found that if the equivalent tax had not been paid by 1932, where the corporation had elected to be taxed as an N.R.O. corporation, it could never get the benefit of exemption from a non-resident holding. This provides for the calculation of what its income was at that time, in accordance with the regulations.

Dr. EATON: It is really the same thing, that is the whole income before taxation.

Hon. Mr. HAYDEN: It is not puzzling to me. I merely point out that you say it shall be deemed to be the same as dividends; and all I say is that the ordinary incidence attached to the dividends of N.R.O. corporations is that they are not taxable.

Dr. EATON: That is all right.

Section 39 (1) was agreed to.

The CHAIRMAN: We are now on subsection 2 of section 39.

Dr. EATON: That arises out of the position of non-resident insurance companies, carrying on business in Canada. There is a long story behind that and I am not sure that I can shorten it very much. The insurance companies are in a dual position, that of carrying on business in Canada and being non-resident. The problem arises as to how their investment portfolio, even their head office portfolio, shall be treated for the purpose of non-resident tax. Up until the time this law came into force there were two taxes. They had interest and dividends received at a premium, with a five per cent tax on residents, applied to everybody; and, an added tax of 15 per cent on non-residents. The problem of this dual position, and being subject to two taxes, came up. They pointed out that it was not fair that they should pay both taxes. Under the power of the Minister, under the old Act, they were deemed to be residents, and as such were freed entirely from the 15 per cent tax on non-residents. They were, however, liable to the 5 per cent tax in respect of interest and dividends received as premiums applicable to residents of Canada. When the new income tax was introduced, the 5 per cent tax on interest and dividends received at a premium was repealed, and the insurance companies were in the position of having no tax at all to pay under these two sections. In the meantime we are