

Hon. Mr. McKEEN: Then, how does that go to the shareholders free of tax?

Dr. EATON: By redemption of shares or stock dividends.

Hon. Mr. McKEEN: Then some shares must be issued at the same time or stock dividends declared?

Dr. EATON: Or outstanding shares redeemed.

Hon. Mr. McKEEN: But it cannot be paid out in cash by the dividend route?

Dr. EATON: No.

Hon. Mr. EULER: But you may pay a stock dividend and then redeem that stock?

Dr. EATON: Yes.

Mr. GAVSIE: It is like a bank account. Having paid your tax, you have on deposit an amount that you may capitalize now or later.

Hon. Mr. HAIG: Or you may issue preferred stock?

Mr. GAVSIE: Yes. But if you pay a stock dividend or issue preferred stock, the shareholder is deemed to have received a dividend equivalent to the stock he got.

Hon. Mr. McKEEN: If there was no earned surplus at the time this paid, the shareholder would pay no tax at all?

Mr. GAVSIE: That is right.

Hon. Mr. McKEEN: As to the election, I have been asked this question. If there is a \$200,000 reserve, does the whole \$200,000 have to be put in at one time or can you put in a part of it at one time?

Mr. GAVSIE: If the \$200,000 represents the accumulation up to the end of 1949, you have to deal with it at one time. There is no time limit within which you must deal with it, but if you elect to deal with it in any one year you must deal with the whole amount in the one year.

Hon. Mr. McKEEN: Suppose a company has a considerable earned surplus but has not available the funds to pay the tax on it in one year, is there any provision whereby that can be paid over a period? Suppose there was an accumulation of half a million dollars, could the tax of \$75,000 be paid over a period?

Mr. GAVSIE: The company would have to wait till it was in a position to pay the \$75,000. There is no penalty on the company for waiting.

Hon. Mr. EULER: May I refer to the case mentioned by Senator McKeen? A company has a surplus of \$200,000, on which it pays a tax of \$30,000, leaving a balance of \$170,000. That cannot be paid out as cash dividends, without making the shareholders liable to tax, but stock can be issued to the shareholders to the extent of the \$170,000?

Mr. GAVSIE: Yes.

Hon. Mr. EULER: Then the company can redeem that stock, pay cash for it, and that is not taxable?

Mr. GAVSIE: Correct.

Hon. Mr. EULER: Is that not just an evasion?

Mr. GAVSIE: It has to be capitalized. It will be noticed that there are two parts to this. Incidentally, we are dealing with section 32 and it becomes a little complicated when you stick to section 28. The tax is dealt with in section 32 of the Act.

Hon. Mr. McKEEN: The redemption mentioned by Senator Euler can only be done when there is no earned surplus.