

under this amendment that will continue to be permissible until the 30th of June. I cannot see any difference between allowing one company to take over the earned surplus of another in the form of dividends and allowing a smaller company to use an earned surplus to reorganize its capital structure.

Hon. Mr. McKEEN: Mr. Chairman, this amendment does not do what Senator Lambert seems to think it does. The earned surplus is still there and cannot be distributed until the 15 per cent is paid. Whether it is in the hands of A Company or B Company, it is still an earned surplus and subject to taxation.

Dr. EATON: Yes.

Hon. Mr. DAVIES: If a company distributes its surplus to shareholders, an income tax is payable on it.

Dr. EATON: Yes.

Hon. Mr. DAVIES: But if it is paid to the controlling company, it is not subject to tax?

Dr. EATON: That is correct. The surplus still exists in the second corporation. It has moved from one corporation to another and has not been received by individuals, but when distributed to individuals it will be subject to tax. This amendment provides that when control is acquired in future the surplus cannot be moved tax free to the second corporation in future. The controlled corporation may elect to pay 15 per cent tax on that surplus which it has, and then the surplus may be moved over to the other corporation tax free.

Hon. Mr. DAVIES: Can there be a series of subsidiary companies? That is, can company No. 1 pay dividends to company No. 2 free of tax, and company No. 2 pay dividends to company No. 3 free of tax, and so on?

Dr. EATON: Yes, sir, where the control has existed in the past.

Hon. Mr. DAVIES: Then dividends might be paid to a series of companies, five or six or more companies, and in no case would there be liability to tax?

Dr. EATON: That is correct. Had the receiving corporations been taxed, the tax would have been paid four or five times, depending on the number of receiving companies, and when at last the surplus reached the shareholders the tax would have been payable again.

Hon. Mr. DAVIES: So that during the war the payment of income tax at high rates was avoided, and now when the surplus is distributed the rates of tax are lower. In the result the government has lost a lot of money.

Hon. Mr. PATERSON: According to what Dr. Eaton says, this amendment does not seem to be necessary. This affects only companies which have started negotiations after May 10, is that so?

Dr. EATON: The general amendment will apply where control is acquired from May 10 onward.

Hon. Mr. PATERSON: Then why is this amendment necessary?

Hon. Mr. McKEEN: This will cover any cases where transfer of shares has been arranged for and where the shares have been deposited in the hands of a trust company for transfer but have not actually been turned over. And the exemption applies only to negotiations that have been completed by June 30.

Hon. Mr. PATERSON: Dr. Eaton says that companies that started negotiations by May 10th are exempt.

Dr. EATON: So long as the negotiations are completed by June 30.

The CHAIRMAN: Shall section 11 carry?

Some Hon. SENATORS: Carried.