

ministration of the Act it would be fair to make the assessment of the dividends for one year, that is if it was a preferred dividend. I shall consider the matter, because I do not like to have anything left to the discretion of the minister. I think, legally speaking, if a shareholder, gets cumulative dividends for three or four years in one payment in a year, it is part of his income for the year. But, my hon. friend suggests there may be a certain injustice in that, and there may be something in his suggestion. I will consider it.

Mr. GRAHAM: A difficulty might be that in all matters of assessment the assessment of one year is taken, in a measure, as the basis for the next year. No matter what the return may be the officer in charge will simply look it over and see that a man received, say, \$800 in dividends last year from a certain company, and this year he only acknowledges \$150.

There are, as the hon. gentleman has said, companies that have paid no dividends for several years, but within the last year they have been catching up on the arrears of dividends. There will be some injustice in charging what was really, or what should have been, their income for two or three years back as the income for this year. The minister said he would take it into consideration. I think it is worth thinking over.

Sir THOMAS WHITE: I doubt if you could deal with that expressly by statute.

Mr. LEMIEUX: When you speak of dividends you should speak of coupons which represent a fixed amount. A certain big hotel company issued coupon bonds, but a few months after the war broke out that company ceased to honour its coupons. It is expected that in a year or two the company will be in a position to pay the coupons. In that case I do not see any reason why you should not make an allowance for the coupons which were due, but unpaid, before this Bill came into operation.

Sir THOMAS WHITE: I am afraid we could not do that. In the back years they did not receive their interest in a particular year, but they do receive their interest after that and they will have to pay on that.

Mr. NESBITT: Does the minister propose allowing a corporation to deduct bond interest before assessing the profits at the end of the year?

Sir THOMAS WHITE: Without doubt, interest upon bonds is a fixed charge and net

profits are only ascertained after deducting interest upon underlying charges, all interest payments, operating expenses and overhead—in other words, the net profits, according to a properly drawn balance sheet.

Mr. NESBITT: I realize that it is impossible to be perfectly fair to everybody, but a corporation having no bonds and having stock will be in a very much worse position than a corporation that just carries bonds.

Sir THOMAS WHITE: I saw that argument advanced in one of the newspapers, but I submit it is not sound. The corporation that has a share capital pays upon its net earnings and its shareholders, upon receiving their dividends, are credited with the tax that is paid by the corporation. Take the case of a company which has a large bonded indebtedness. The holders of those bonds, not the company, are assessable under this Income Tax Bill for the incomes which they receive. The holder of the bonds pays upon the earnings of the company which are used to pay its bonded interest.

Mr. NESBITT: My hon. friend is quite right as to the individual shareholder or bondholder, but he is not right as to the corporation, as the corporation with stock is paying the four per cent on the whole profit whereas the corporation with bonds outstanding has that four per cent deducted.

Sir THOMAS WHITE: I understand that the corporation in the one case would pay a considerable sum, let us say, and in the other case it would not. But if you take that corporation with only a nominal share capital and distributing all its net profits to its bondholders, its bondholders are the virtual proprietors of the company. I do not mean to say that they are legally the proprietors but they are virtually the proprietors of the company because they hold its bonds and they get, by way of interest, all of its earnings or practically all of its earnings. Now take the case of the company that has no bonded indebtedness but has a large share capital and pays out dividends to its shareholders. The shareholders there are virtually the proprietors of the company, not legally, but virtually the proprietors of the company as the bondholders in the former case are virtually the proprietors of that company. That is to say, they take all of its earnings. The net result is about the same because the bondholders are assessable as individuals in respect to the bond interest which they derive. It is true that the other company