

his income that derivable from his usual occupation of a banker, or is he to deduct the liabilities that may attach themselves to some other investment into which he has gone?

Hon. Mr. DANDURAND: I will answer my honourable friend's question by another question. Instead of vacant lots this man has a house which he rents for \$1,000 a year. He has charges of \$500 to meet, taxes, interest upon a mortgage, and insurance, leaving \$500, which he draws from the house. What is the net income of that man? Is it not the \$5,000 which he draws plus the net profits from the house? Will my honourable friend contend that he gets \$6,000 a year?

Hon. Sir JAMES LOUGHEED: Suppose that under the mortgage he has to pay not only interest, but \$100 annually of the principal, would you deduct that \$100?

Hon. Mr. DANDURAND: No. That is practically an investment. But, as a matter of fact, what is the amount of income he will enjoy in that situation? He will enjoy \$5,500. If my honourable friend admits that from that \$1,000 which he draws from that property \$500 of charges must be deducted—and I think he will come to that conclusion—then how much should be deducted if the next year that house is not rented? The charges remain, but the man has not got the rental of \$1,000. Then, I say his income is no more \$5,500; his income, which was \$5,000, which he received as a salary, is really \$4,500. If he had the rental the state would tax the profit of the transaction, but the state surely must stand to lose if the income is reduced by the loss of the rental.

Hon. Mr. BEIQUE: The honourable member for De Lorimier (Hon. Mr. Dandurand) has shown that in the Act of the United States the words used are "net income," and I think he has conclusively shown that it is opportune to use that word here. I refer to Foster's "Income Tax," where I find this:

Judicial Definitions of Income.—It was said by Lord Chancellor Halsbury of England: "I think it cannot be doubted, upon the language and the whole purport and meaning of the income tax acts, that it never was intended to tax capital . . . as income at all events." Lord Macnaghten: "In every case the tax is a tax on income, whatever may be the standard by which the income is measured. It is a tax on 'profits or gains' in the case of duties chargeable under Schedule (A), and the expression 'profits and gains' is constantly applied without distinction to the subject of charge under all the schedules."

There are a few dicta in the state courts to the contrary.

"Strictly speaking, 'income' means that which comes in or is received from any business or investment of capital without reference to the outgoing expenditures." Accordingly, in a Georgia case "annual income" was construed as meaning "gross income." So, "property may have an annual value 'without any income.'" And the term "profits or income" has been construed as meaning "gross profits" or "gross income," and not "net profits" or "net income." By the rule of construction, *noscitur a sociis*, however, the words in this statute must be construed in connection with those to which it is joined, namely, gains and profits; and it is evidently the intention, as a general rule, to tax only the profits of the taxpayer, not his whole revenue. Accordingly, money received as the result of the change of an investment, or as the proceeds of a sale without profit, is not income.

This book deals with the laws on income in Great Britain, the United States, France, and other countries. In the United States they have gone further than has been mentioned by my honourable friend from De Lorimier. They go this far:

That in computing net income for the purpose of the normal tax there shall be allowed as deductions: First, the necessary expenses actually paid in carrying on any business, not including personal, living, or family expenses; second, all interest paid within the year by a taxable person on indebtedness; third, all national, state, county, school, and municipal taxes paid within the year, not including those assessed against local benefits; fourth, losses actually sustained during the year, incurred in trade or arising from fires, storms or shipwreck, and not compensated for by insurance or otherwise; fifth, debts due to the taxpayer actually ascertained to be worthless and charged off within one year; sixth, a reasonable allowance for the exhaustion, wear and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per centum of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof for which an allowance is or has been made.

Hon. Sir JAMES LOUGHEED: Is that the English Act?

Hon. Mr. BEIQUE: No, the United States Act.

Provided, that no deduction shall be allowed for any amount paid out for new buildings, permanent improvements, or betterments, made to increase the value of any property or estate; seventh, the amount received as dividends upon the stock or from the net earnings of any corporation, joint stock company, association, or insurance company which is taxable upon its net income, as hereinafter provided; eighth, the amount of income, the tax upon which has been paid or withheld for payment at the source of the income, under the provisions of this section, provided that whenever the tax upon the income of a person is required to be withheld and paid at the source as hereinafter required, if such annual income does not exceed the sum