

the minister is of opinion that the accumulation of such undivided and undistributed gains and profits is not made for the purpose of evading the tax, and is not in excess of what is reasonably required for the purposes of the business.

With regard to partnerships, we find that profits are allowed to accumulate. The partners do not mind very much if the profits are left in the business. They will draw only a certain amount, and claim only to be assessable for that amount. But it is perfectly clear that if a partnership of two persons makes a net profit of \$100,000 a year they should be assessed for that full amount, because they have made it. The two partners in question might say "We will leave \$50,000 in the business and draw out \$25,000 apiece," because the present supertax is a pretty serious thing. We are repealing that clause in the present Act and providing, with regard to corporations only, that the profits shall not be deemed to be taxable unless the minister is of opinion that the accumulation of such undivided profits is made for the purpose of evading the tax and is in excess of what is reasonably required for the purposes of the business. A corporation with a great many shareholders divides substantially all its earnings, setting aside a balance for reserve. The department will have to determine whether the amount set aside is an unreasonable amount or not. Many joint stock companies earning ten per cent net profits pay out seven per cent to the shareholders, and carry three per cent to reserve or to undistributed profits, which in time may be distributed to shareholders, or may become reserve so-called. We desire to improve the legislation so as to get at the profits of those engaged in syndicate operations and partnerships, and others whom now we have great difficulty in getting at. We also want to bring it about, so far as we can, that companies shall distribute the amount which may fairly be distributed to their shareholders. If they did not we would have to try to assess the shareholders, although that is a very difficult thing to do. It must be borne in mind as a safeguard in the case of a corporation that we are increasing the income tax upon a corporation to ten per cent of its net earnings, so that any company to-day earning \$100,000 net profits will pay the Dominion Government \$10,000 to start with, no matter what amount it may set aside or distribute. If it distributes \$70,000 of its net earnings, then we assess the \$70,000 in the hands of the shareholders in accordance with the law.

Mr. CAHILL: Suppose that this company making \$100,000 net profits per year was investing \$10,000 a month of its net profits in tax-exempt bonds; what taxation would it pay?

Sir THOMAS WHITE: If the company's net profits were \$100,000 they would be assessed for \$100,000, no matter what they invested the money in, because they have earned that amount; but supposing that in that year they had made no distribution to their shareholders, but had carried those bonds to reserve, from which the shareholders would draw earnings later—that is, added to their capital—the income from those bonds would be exempt. But their earnings, whether they were invested in Victory Bonds or not, would be assessable.

Mr. McMASTER: Does the minister regard the sums which a shareholder might obtain by selling his rights to shares as income or as an accretion of capital?

Sir THOMAS WHITE: I am not sure that I follow my hon. friend. If a man owns shares and sells them, that is a realization of assets.

Mr. McMASTER: I do not mean that. Let us take a case which happened very recently, and which I had in mind. The Bell Telephone Company recently increased their capital stock, and every shareholder had the right to subscribe for a certain amount of the new stock. Those rights were quoted on the exchange at a few dollars per share. Would the minister regard the money which was obtained by a shareholder disposing of his rights in that way as income which could properly be assessed for income tax, or as an accretion of capital?

Sir THOMAS WHITE: If a company distributes any part of its earnings by issuing stock, then that would be income. On the other hand, if there is a mere distribution of capital stock representing reserve, and a sale of that, I should say off-hand that that would be a matter relating to capital, provided the reserve was there before the first of January, 1917.

Mr. McMASTER: I have not made myself quite clear. Let us take the case of the Bell Telephone Company. Quite recently that company increased its capital stock. It invited its shareholders to take up new stock.

Sir THOMAS WHITE: At what rate?

Mr. McMASTER: At par. For every four shares which a man held he was allowed