

4. SECTION 4, 19 (1). The effect of the amendment so far as individuals are concerned is to render them liable on a winding-up in respect of the earnings of 1930 and thereafter.

4. SECTION 4, 19 (2). Dividends from one company to another are not taxable. Therefore, when individuals wish to take the surplus of a company because of the sale of its assets or winding-up or simply to get a tax free dividend there is incorporated by other persons a second company to which the shareholders transfer their shares, the second company undertaking to pay for the shares at par plus premium. Then the operating company having the surplus is wound up, distributes its assets to the second company and the second company fulfils its obligation to the vendor shareholders, thus avoiding tax liability to individuals.

The amendment prevents the avoidance of tax presently capable of being carried out by imposing a tax at corporation rates on the surplus turned over to the second company, insofar as the surplus shall have been created out of earnings of 1930 and thereafter.

5. SECTION 5. "Family Corporations" was designed to give relief to shareholders resident in Canada employed in the corporation. The relief was from the company tax and to place the shareholders in the position of partners, in which capacity they actually worked. Partnerships, as such, were not taxable and so the Family Corporation, as such, was made exempt from tax.

Non-resident shareholders with only one or more of the family employed with the company in Canada are endeavouring to take advantage of the relief afforded Family Corporations so that the Family Corporation being exempt on election of shareholders, the shareholders would also be exempt as non-residents and the Crown would get no tax whatsoever. It is therefore to preclude the non-resident shareholders from taking a technical advantage in respect of a Family Corporation and paying no tax, either as a company or a shareholder, that the amendment is made.

6. SECTION 6. Dividends paid to non-residents by Canadian companies are not taxable. Along the border there are many non-resident persons who control or have a substantial interest in Canadian companies. It is found that such persons who reside abroad and more or less habitually come to Canada forego any claim for salary and take their remuneration by way of dividends and thus escape tax in Canada. The amendment is designed to render them liable to tax.