

May 16, 1933.

Honourable E. N. Rhodes,
Minister of Finance,
Department of Finance,
O t t a w a , Ontario.

My dear Mr. Rhodes,

Let me acknowledge your letter of May 15th re the 5% tax deducted from certain dividends due Canadian investors.

I am quite willing to admit that this exchange premium represents an adventitious income to the Canadian security holder, and, furthermore, that when the security was originally purchased the Canadian investor expected to receive payment in Canadian funds. But from an academic and philosophical point of view, I am unwilling to admit that either of these factors gives the Government an ethical right to depart from its usual - and, I believe, just - treatment of universities and hospitals in the matter of taxation.

When I wrote to you I referred to the Dominion Coal Company bonds. If that Company were to say to the University, "When you bought these bonds you did not expect to receive your dividends in other than Canadian funds, and we think you should be satisfied with Canadian funds now," I would be sympathetic to that suggestion. But I still cannot see that though the Company is penalized by its promise to pay in American funds that gives the Government of this country any right whatever to levy a tax on that premium.

If the Government wished to take to itself credit for the fact that the Canadian Dollar is only worth 88 cents in New York, then it might reasonably suggest that it was entitled to some share of the advantage this exchange situation gives to the bondholders in question. I do not think the Government wishes to take any credit for the present