

Mr. McCREA: I want the minister to have latitude enough to deal with the matter.

Sir THOMAS WHITE: I think there is sufficient latitude.

On paragraph 5, sub-paragraph 6:

(6) Where an incorporated company conducts its business whether under agreement or otherwise, in such manner as either directly or indirectly to benefit its shareholders or any of them or any persons directly or indirectly interested in such company by selling its product or the goods and commodities in which it deals at less than the fair price which might be obtained therefor the minister may determine the amount which shall be deemed to be the profits of such company for any accounting period and in determining such amount the minister shall have regard to the fair price which but for any agreement, arrangement or understanding might be or could have been obtained for such product, goods or commodities.

Mr. GRAHAM: Is this clause intended to protect the Government against the possibility of a large concern forming a small company, say, and selling its products to them, both dealing in the same products, and possibly having the same directors?

Sir THOMAS WHITE: The purpose of this clause is to enable the Government to levy taxation against a company whose shares are held or controlled by a corporation domiciled outside of Canada. Now, that corporation domiciled outside of Canada and holding, let us say, all the shares of a subsidiary company carrying on business in Canada, could take its profits from that subsidiary company in one of two ways. The subsidiary company might carry on its business properly, charging the holding company to whom it sold its product a proper price for such product, and keeping its accounts in all respects as a company would keep its accounts that was not so owned or controlled, but dealing directly with the public. In that case, the holding company would derive its profits from the subsidiary company just the same as the shareholders of an ordinary company derive profits from their investments by way of dividends from the company whose shares they hold. The other way in which the holding company could derive its profits would be by making an arrangement with the operating company, the company which it controls, to sell its product at, let us say, cost price. Then the holding company would make its profit by getting that product at less than the market price, working it up into a more finished product in the foreign country. No one would raise any

[Sir Thomas White.]

question against that procedure, because all the shares in the case I am instancing are held by the holding company domiciled outside of Canada. Therefore, but for this provision, when the department came to assess the subsidiary company, they would be able to say: "We have no profits; we sell all our product at cost, and we declare no dividends; we have made no money." In order to get over that, we have inserted this provision, which puts it within the power of the department to say to such a company: "It is true that you do not make any profits, but that is on account of the way you conduct your business; if you conducted your business as other companies conduct their businesses, dealing with the public at large, and not with the company that controls you, you would sell your product at a much higher price; we want you to make a calculation, and tell us how much you would earn if you sold your product at a proper price to the company which controls you."

Mr. GRAHAM: Does that apply to the Nickel Company?

Sir THOMAS WHITE: In that way the subsidiary company would be put on the same basis as any other company not so controlled. In other words, this is an attempt to place all companies on the same footing.

Mr. CARVELL: Take a concrete case. Would this clause cover the production of nickel in Canada?

Sir THOMAS WHITE: My hon. friend means nickel matte.

Mr. CARVELL: The production of nickel.

Sir THOMAS WHITE: I do not know myself the precise relationship between the mining company and the refining company which is domiciled and has its establishment in the United States. But if the mining company—the company which produces the nickel matte—sells its product to the refining company at less than the proper value of that nickel matte, this clause would apply, and it would be for the department to fix the profits, having regard to the fair price which would be obtainable for the nickel matte if sold upon the ordinary commercial terms governing sales of that kind.

Mr. NESBITT: How would you arrive at that fair price?

Sir THOMAS WHITE: That, like everything else under this Act, and under all assessment Acts, is a question of fact.