

any trade, manufacture or business, as the case may be;

The reference applies only to income.

Mr. BAXTER: I know, but almost the first word you start out with shows the difficulty of applying it. It is the annual net income. The thing the minister wants to tax, and I want to help him to tax, is not an annual profit, it is what you might call a sweeping up of perhaps a series of years, which is really only ascertainable and only get-atable on the winding up or reorganization.

Sir HENRY DRAYTON: Would it not make it clear if you said, "undistributed profits"?

Mr. ROBB: I will continue reading the interpretation of income for my hon. friend:

—and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and whether such gains or profits are divided or distributed or not,—

Mr. BAXTER: But that is all controlled by the word "annual".

Mr. ROBB: I do not think so.

Mr. RYCKMAN: Mr. Chairman, I am in entire sympathy with the minister, I know what he wishes to tax and I should like to see appropriate language used to effect it. I quite appreciate the definition of income which has been read, but this bill declares that there

—shall be deemed to be the payment of a dividend to the extent that the company had on hand undistributed income.

We all know that under the definition which the minister has read a dividend is taxable, and properly so. Adverting to the case which has already been referred to, the winding up of a company where the capital has been impaired, it would seem that there certainly must be a provision that it should not be deemed that any money which was paid upon that distribution should be taxed unless it were in fact a dividend or a profit or a gain, as the minister read. What would the minister say of this case, which comes into my mind on the spur of the moment? The stock of the Bank of Montreal, for instance, stands to-day in the neighbourhood of 230 or 235. I have no doubt that if there was a winding up of that bank—it is, to be sure, an incorporated company in perfect solvency—the shareholders would be entitled, we will say, to something in the neighbourhood of the market price. But under this section as drawn, if any part of the purchase price paid for those shares was in the nature of undistributed stock, then any part of the pur-

chase price above par would be subject to tax, which I am sure is not the intention of the minister.

Sir HENRY DRAYTON: That is just what it does, though.

Mr. ROBB: These are profits that were realized.

Mr. BAXTER: I am just beginning to realize some of the possibilities of this provision. Suppose reorganization is part of a process of amalgamation with another company. The shareholders collectively own the entire assets of company A, and in order to make the business more successful, or perhaps to prevent its being a failure, they decide to amalgamate with company B. Just at the moment when it may be necessary to make use of all the resources of both companies, you step in and inflict a tax upon what they are using as capital, even though it may not be so in direct terms. I know the minister does not want to prevent any real business reorganization that is healthy in its character, but he does want, I think, to get at the condition where people are putting one bucket of water along with another and attempting to fill the puncheon.

Mr. JACOBS: It would be watered stock.

Mr. BAXTER: It might be all water and no stock, as we sometimes see.

Sir HENRY DRAYTON: I take it that what is meant here is not a change in company ownership or name, as you have in an amalgamation, but a distribution of money to the shareholders of the company. On the question of reorganization, suppose you have one company coming with a capital of \$100,000, another company coming in with a capital of \$100,000 and an amalgamated company with a capital of \$300,000. Under this section the shareholders of the new company, having got their stock in the new company to the extent of 150 as against 100 in the old, the department would treat the extra 50 as a dividend paid by the new company and make that chargeable with the 10 per cent corporation tax. That is how it seems to me this would work out.

Mr. ROBB: If the surplus earnings are distributed as stock, why should they not be taxable? My hon. friend took that view in 1920, as the act clearly indicates.

Sir HENRY DRAYTON: I entirely agree. But what puzzles me is while I think that is the intention of the department, the section does not appear to carry out that intention.