

The CHAIRMAN: Yes.

Hon. Mr. McKEEN: I imagine the reason for this amendment is that companies with a large earned surplus have been used to buying their own shares, through the process of putting the money into another company. They would transfer earned surplus to a company which had not an earned surplus. But that has nothing to do with Senator DuTremblay's question, because they were companies that were formed and had control before this date.

Hon. Mr. DuTREMBLAY: This amendment comes into force next April?

Dr. EATON: Where control is secured after May 10th. This is all forward-looking. Existing controls are not affected. This new amendment is to allow the dividends to pass freely so long as the right to acquire control had existed prior to May 10th: that is, negotiations in process may still go on, regardless of the amendment.

Hon. DuTREMBLAY: It does not affect transactions that could have taken place two or three months ago?

Dr. EATON: No.

Hon. Mr. DAVIES: I want to know whether this amendment of Senator McKeen is simply to give preferential treatment to one particular company?

Hon. Mr. McKEEN: No. This amendment is to cover the period of companies that had started previous to this law, companies that started last year to form a combination of various companies and had completed most of their arrangements before this could come into force, though they had not actually transferred the shares. There may be half a dozen such cases; I do not know. The purpose is to give them a little more time to transfer. But it cannot be done after May 10th; it must be done before that. This is just a case of the actual transfer of the shares.

Hon. Mr. BEAUBIEN: It will not be permissible after June 30th?

Hon. Mr. McKEEN: No, it will not be permitted after May 10th. In this particular case, arrangements were made and shares were actually deposited in the hands of the trust company in April, but the transfer to the new owners' hands was not to be made until June. The original shareholders had lost the rights of their shares, but the new owners had not taken them on. It was just a transition period, when they were in the hands of the trust company.

The CHAIRMAN: We have spent quite a lot of time on this section. Are we ready to pass it?

Hon. Mr. DAVIES: It is an important section.

Hon. Mr. LAMBERT: As to the relieving of taxation of one company purchasing another, what is the difference between that case and the case where a company which has acquired an earned surplus over the years and wants to reorganize its capital without being taxed on that surplus? Is it not, in both cases, an effort to put in the capital structure an earned surplus without being taxed? If a single company wishes to reorganize its capital by putting in any earned surplus that has accumulated over, say, ten or twenty years, it must pay 15 per cent. There is no question about that. I cannot see any distinction between the two cases.

Dr. EATON: Well, sir, I think there is this distinction, that the surplus moved from one company by dividend to another company is still technically in the second company, whereas if individuals received the surplus it would be taxable in their hands and would disappear as surplus. The surplus is still standing in the second corporation as undistributed income of that corporation, which income if distributed later will be taxable in the hands of the individuals.

Hon. Mr. LAMBERT: Up to date it has been permissible for a company to take over the earned surplus of another company in the form of dividends, and