

Education Tax is a normal corporation tax. And since it is an expense incurred in doing business it is allowed. If the tax is a corporation tax on profit, it would not be allowed as an expense.

Section 4 was agreed to.

On section 5—Interest on Bonds.

The CHAIRMAN: Shall section 5 carry, that deals with interest on bonds?

Some Hon. SENATORS: Carried.

Section 5 was agreed to.

On section 6—Husband and Wife:

The CHAIRMAN: That is the husband and wife provision—its clarification, and it certainly is not relieving.

Mr. GAVSIE: Under the present law a husband in business cannot deduct a salary paid to his wife, and the purpose of that is to prevent splitting of income, which is not allowed in Canada. Last year or the year before we made certain allowances that salaried people could deduct from their salary, namely, the cost of hiring an assistant or substitute that you were required to pay for yourself. So that at the present time a man on salary could hire his wife as an assistant and pay her a salary. The purpose of this amendment is to make the two parallel. In other words, a man in business paying a salary to his wife cannot deduct that salary as an expense, and she is not taxable on it. The purpose of the amendment is to remove the words "income from a business". Even a salaried man cannot hire his wife as an assistant, pay her a salary and deduct it. That makes those two provisions parallel.

Section 6 was agreed to.

On Section 7—Dependent children.

The CHAIRMAN: Section 7 deals with the extension of the \$400 allowance for children over 21 years attending school or university.

Section 7 was agreed to.

On Section 8—Medical expenses.

Section 8 was agreed to.

On Section 9—Dividends received by a corporation.

The CHAIRMAN: Section 9 has to do with the famous section 27 which we have been concerned with at almost every session since the present act came into force. It is a relieving section. Do you wish to give us some explanation on that, Mr. Gavsie?

Mr. GAVSIE: By section 27 (1A) we now have a provision that when control of a corporation is transferred to another the surplus at the time of transfer is blocked and cannot be paid out by way of dividends from one corporation to another tax free. The purpose of this amendment is to grant relief where there are two corporations owned by the same parent company and control of one brother is transferred to the other brother. So long as the sale of the shares takes place at par value, or if no par value at book value, then the block does not apply.

Hon. Mr. DAVIES: I am not quite clear on that. Do you mean that the parent company and the two subsidiaries are on an entirely different basis?

Mr. GAVSIE: No. If for business reasons you want to transfer the control of company A, which is one of the subsidiaries, from the parent company to the other subsidiary, so as to make company A a subsidiary of the other