

This might afford some suggestion by which we could provide for a direct statutory provision in taxing undistributed profits.

Sir THOMAS WHITE: By subsection 4 provision is made for the application of a supertax to undistributed gains or profits provided that the minister is of the opinion that the accumulation of such undivided and undistributed gains and profits is made for the purpose of evading the tax. In what my learned friend has read there is an attempt to make it statutory, which is a pretty difficult thing to do. Here it is left as a matter of discretion. My own view is there is not likely to be an attempt at abuse, except in the case of a close corporation, and in such a case I think wise discretion would have to be exercised to see that the corporation paid the proper share of taxation.

Mr. A. K. MACLEAN: You want to take sufficient power to have that discretion?

Sir THOMAS WHITE: It is there.

Mr. A. K. MACLEAN: Is it wide enough?

Sir THOMAS WHITE: Oh, yes.

Mr. LEMIEUX: If the minister will permit me, I would like to repeat a question I put this afternoon, in connection with, first, a corporate body, and, second, a shareholder. My hon. friend said there will be an adjustment after a while, and that what the corporate body paid to the exchequer would be deducted from what the shareholder will have to pay. How are you going to adjust it? Supposing a company has five thousand, six thousand, or perhaps ten thousand shareholders, each receiving more or less dividends, and therefore paying more or less to the exchequer, how are you going to adjust it as between the individual shareholder, the company, and the exchequer? There are companies which, at the beginning of the war ceased paying any dividends. Those dividends are cumulative. Suppose this year or next year they make enough profits to pay the cumulative dividends to each shareholder, as representing the unpaid dividends since the beginning of the war, will you assess the whole of the cumulative dividends, which are really the earnings of the years before this Bill comes into force, or will you deduct what should appertain to the years when no dividends were paid?

Sir THOMAS WHITE: In regard to my hon. friend's first question, if he will look

[Mr. A. K. Maclean.]

at subsection 2 of section 4, he will see that corporations and joint stock companies, no matter how created or organized, shall pay the normal tax upon income exceeding \$3,000. That is quite clear. Every corporation will be assessed by the department in respect of its net income at the normal rate of four per cent.

Clause (f) of subsection (1) of section 3 provides that for the purpose of the normal tax, the income embraced in a personal return shall be credited with the amount received as dividends upon the stock or from the net earnings of any company or other person which is taxable upon its income under this Act. Having assessed all the companies, when we get a return from a shareholder, he will be entitled to credit of the amount paid by the corporation upon dividends he received which are embraced in this return.

Mr. LEMIEUX: Will he do that himself, or will the department do it?

Sir THOMAS WHITE: He will make a return showing how his income is made up. Say, part of his income was derived from shares in a company which has paid the normal tax upon its income. In that case he would be credited with the amount which was so paid. The department would scrutinize his return, and in preparing his assessment would make the necessary allowance. Subsection 4 of section 7 provides that all corporations, associations, and syndicates shall make a return of all dividends and bonuses paid to shareholders and members. That would help the department in making the necessary adjustments.

Mr. LEMIEUX: Would it not be better to have the companies deduct the tax of the individual shareholders?

Sir THOMAS WHITE: No, they pay their own in full, then we make the allowance in the case of the individual shareholders. It is different from what it is in England.

Mr. NESBITT: It is just the opposite.

Sir THOMAS WHITE: Yes. Answering my hon. friend's second question; if he asks the question from a strictly legal point of view, I should say that a shareholder receiving accumulated dividends would be liable to taxation on those dividends as part of his income.

Mr. LEMIEUX: Then, it is retroactive?

Sir THOMAS WHITE: If they were cumulative for a period of two or three years, my view would be that in the ad-