

The amount of the exemption from normal tax to the shareholders shall not exceed the net amount of such dividends after the deduction of the interest or carrying charges, if any, in respect of such dividends.

Let us say that a shareholder is carrying shares with a bank, upon which shares he derives dividends to the amount of \$1,000, and let us say that, to carry the stock, he has borrowed from the bank an amount which would cost him \$1,000 a year by way of interest. He has no net income from that stock. But some shareholders have desired to set off against their whole income the amount of money that they pay the bank by way of interest for carrying their stock, and at the same time, to claim exemption as to the normal tax upon the whole amount of the dividends which they receive from their shares. They, as the saying is, "want it coming and going," and this is to make it clear that only the net income in the hands of the shareholders, that is to say the difference between the amount he receives from his dividends and the amount he pays out by way of interest for carrying charges, shall be taken into account in exempting him in respect of the normal tax.

Mr. J. H. SINCLAIR: Would it not be better, when he is allowed to debit any interest he pays during the year, if he paid his tax on his dividends and charged the interest on the other side of the account? Then he would not come under this section at all.

Sir THOMAS WHITE: I do not agree with my hon. friend. He would take the \$1,000 he paid by way of interest in carrying this stock and deduct it from the income which he receives, say, in his calling, and in that way cut down the gross amount. The amount of income is important because of the imposition of the supertax. Under the suggestion made by my hon. friend, he would get exemption as to normal tax upon the whole amount of the dividend, and on the other hand, he would apply the \$1,000 in cutting down the amount of his income otherwise received.

Mr. NESBITT: Is the report in the press that 31,000 people are the only ones who paid income tax in Canada for 1917 correct? And does the minister expect to get any more income taxes for the year? Was the amount reported in the press only for 1917, or was there any amount for 1918 mixed up in it?

Sir THOMAS WHITE: This afternoon, I gave the committee information showing that 46,176 assessments had been made in

[Sir Thomas White.]

respect of 1917, aggregating an amount of assessments of over \$11,000,000, of which 39,496 assessed parties had paid a total sum of over \$9,000,000. I would point out also—and this is apt to be lost sight of—that with the Business Profits War Tax in operation there are many firms and companies which, but for the Business Profits War Tax Act, would pay on income account, because, as my hon. friend will remember, an assessable party pays whichever amount is the larger. If we did not have the Business Profits War Tax Act and were operating only under the Income Tax Act we would have received last year in income tax about \$20,000,000. The amount of income tax which we received is apt to mislead by reason of the fact that so many individuals, firms and companies are assessed under the Business Profits War Tax Act for higher amounts than they would have been liable to pay under the Income Tax Act; in other words, instead of paying income tax they paid the Business Profits War Tax.

Mr. NESBITT: It is reported in the press that 31,000 individuals paid income tax for 1917: Was that the total number of individuals who paid income tax for that year?

Sir THOMAS WHITE: That report was published some time ago. The number is greater than that. There were 46,000 assessments altogether, and I understand that 37,000 of these were individuals. It must be borne in mind that when the income tax was first brought down an exemption of \$3,000 was allowed, so the tax applied only to those in the country having an income of over \$3,000.

Section agreed to.

On section 5:

5. That it be enacted in lieu of the provisions of subsection four of section three of The Income War Tax Act, 1917, that the share of a taxpayer in the undivided or undistributed gains and profits of a corporation shall not be deemed to be taxable income of the taxpayer unless the minister is of opinion that the accumulation of such undivided and undistributed gains and profits is made for the purpose of evading the tax and is in excess of what is reasonably required for the purposes of the business.

Mr. J. H. SINCLAIR: What change in the law does this section make?

Sir THOMAS WHITE: Under the present law it is provided that:

For the purpose of the supertax only, the income of a taxpayer shall include the share to which he would be entitled of the undivided or undistributed gains and profits made by any syndicate, trust, association, corporation or other body, or any partnership, if such gains and profits were divided or distributed, unless