

On section 16—Paragraph repealed: Application:

The CHAIRMAN: Section 16 goes back to section 2, where we were dealing with the income from the Office of Governor General, and it repeals the provision in the present law which exempts the income of the Governor General.

Hon. Mr. HAIG: Carried.

Section agreed to.

On section 17—Where property owned for non-resident persons:

The CHAIRMAN: Any questions? Section 17 deals with trusts. I explained it once, so I should not have to explain it again. Mr. Gavsie will tell you, this time.

Mr. GAVSIE: Well, under the act, a trustee is taxable on all the income he receives except the income that is payable out to beneficiaries during the year. The purpose of this section is to deal with dividends or interest coming from a non-resident-owned investment company to a trustee. The effect of this section would be to allow the trustee to accumulate the interest and dividends that he receives from a non-resident-owned investment company, without being subject to tax.

The CHAIRMAN: It is the only accumulation, I understand, that a trustee could make in relation to his trust in respect of income without being subject to tax: is that right?

Mr. GAVSIE: Yes.

Hon. Mr. LAMBERT: It covers trust companies, I suppose.

Mr. GAVSIE: Yes. Usually the trust companies act as trustees.

Section agreed to.

On section 18—Armed forces regulations:

The CHAIRMAN: This is a new—I hesitate to call it “code”—a new principle for dealing with pay and the liability to tax of those in the armed services.

Hon. Mr. HAIG: Pass: leave it alone.

The CHAIRMAN: It certainly should provide for an easier method in the administration than the one we had last year.

Mr. GAVSIE: Yes, we hope it will. The problem is to get a system that will be workable in an emergency when you have a large number in the armed forces who are scattered throughout the world and being shifted around.

Section agreed to.

On section 19—If personal corporation's chief source of income neither farming nor combination of, etc.:

The CHAIRMAN: This deals with a personal corporation and provides that a gentleman farmer cannot have his personal corporation cease to be such just because he engages in farming as a hobby. That is really the effect.

Mr. GAVSIE: That is the effect.

Hon. Mr. HAIG: It does not affect anybody around this table.

Hon. Mr. McDONALD: It has application to the case of a person taking surplus money and putting it into a farm.

Mr. GAVSIE: A person may put all his investments in a personal corporation and avoid the income being deemed to be distributed by reason of the provisions dealing with personal corporations, by saying that he is in an active business, and the only active business that the corporation has would be this hobby farm; and the purpose of this section is to say that merely because you put a hobby farm into a corporation, that does not mean that it is deemed to be an active business.