year 5 or 6 per cent, but did not declare any dividends because of the unsettled condition of trade and, perhaps, because of lack of banking accommodation, and allowed earnings to go to profit and loss, but this year earned another 6 or 7 per cent and so was able to declare a dividend of 10 or 12 per cent for the two years, but did not earn 14 per cent in the two years, or more than 7 per cent in either year, would the company be taxable under this legislation?

Sir THOMAS WHITE: As I understand the hon. member, he says, supposing for the first year the company earned 7 per cent but did not pay it to its shareholders, and the next year earned 7 per cent, and at the end of the next year paid the 7 per cent which it made the first year and the 7 per cent which it made the next year, to its shareholders, namely 14 per cent, would the tax be upon the 14 per cent? The answer is that, during the accounting period in question, only 7 per cent was earned, and therefore the tax would not apply.

In answer to my hon. friend from North Oxford (Mr. Nesbitt), he will realize that, if they did not pay the dividends at the end of the accounting period terminating before the war, but had earned them, the dividends would be in rest account, or in reserve account, or in profit and loss account. They would then be taken as forming part of the capital upon which the earnings in the succeeding accounting period were estimated. Those profits or earnings not distributed would not be added to the profits of the next accounting period, and the company then taxed upon them both together. But I cannot see on what principle we could allow dividends not declared but cumulative, or dividends earned but not paid, upon common or preferred stock, to be considered as a liability of the company. I think it would be in violation of the principles of law.

Mr. ROBB: Would the minister make the same application to bondholders? Industrial concerns, being unable to finance before the war, have evolved a scheme by which their bondholders have agreed to allow interest on the bonds held by them to remain in the treasury unpaid for two or three years. They would be in identically the same position as preferred shareholders?

Sir THOMAS WHITE: No.

Mr. ROBB: Perhaps the minister would explain it, then.

Sir THOMAS WHITE: A preferred shareholder is a stockholder of the company; he is one of the proprietors. A bondholder is a creditor of the company. There is no question that an allowance for interest owed by a company upon its bonded indebtedness is clearly a liability. I pointed out—I think my hon. friend was not in the House at the time—that there might be a distinction between dividends declared but not paid and dividends which had not been paid but had also not been declared. I am not quite sure what the legal position would be there; but I am quite clear that there is a distinction between interest upon bonded indebtedness and dividends which have been earned but not paid by the company. The one is interest owing to creditors, the other is profits not yet distributed to shareholders or proprietors.

Mr. TURRIFF: I have in my mind the organization of two companies. One of these companies sold their stock for cash at $100 a share and did not allow one cent for organization expenses other than the outlay in cash for securing the charter either under the Companies Act or from this Parliament. They did not allow any commission for selling stock. They did not charge up a dollar for organization purposes except for procuring the charter, and I think that the total expenses of getting the charter and everything in connection with the organization were under $1,000. They sold a million dollars' worth of stock, and, as I say, did not charge a cent for the selling of that stock. The other company sold their stock at $125 a share. They paid 10 or 15 per cent for selling their stock, and they charged up all sorts of expenses for the organization of the company, so that when the company was organized it practically had $100 a share net in the treasury. One company had twenty-five per cent more stock issued and paid up than the other company, and the company that did not make any charges whatever would have nothing on its books to show what expenditures it had in connection with organization and the sale of stock. It would seem to me that it would not be exactly fair that one company should draw profits on a million dollars only in refernece to its stock, and that the other company could draw profits on $1,250,000 in connection with its stock before being called upon to pay any part of this tax. I want to have