

tions is that they pay an accumulated income, equivalent to the 15 per cent rate. After that has been done, the dividends go out tax free. There was a technical defect in the law as we wrote it for the Income Tax Bill, whereby it was extremely difficult to qualify for that privilege. This is to correct a purely technical difficulty. Another correction is that when we said that a tax had to be paid on income equal to the 15 per cent, all we were aiming at was that they should have paid a tax on distributable surplus. Income as defined, was income as defined on the law on which the tax has been paid. There was no fund there to distribute the whole of the income, and so the law has been amended to strike out the word "income" and to use the word "surplus" as defined by the regulations. Those are the two technical changes.

Hon. Mr. HUGESSEN: I think that is an improvement.

Dr. EATON: Yes.

The CHAIRMAN: Does subsection 1 carry?

Some Hon. SENATORS: Carried.

The CHAIRMAN: Subsection 2 deals with rents and royalties, etc.

Mr. GAVSIE: What has happened is that in the non-resident provision we are revoking the provision for withholding tax on copyrights, and what will be the subject of withholding tax will be rents, royalties, etc., which were in the law before. This section had to be rewritten to remove the provision for withholding tax on copyrights.

The CHAIRMAN: Shall subsection 2 carry?

Some Hon. SENATORS: Carried.

The CHAIRMAN: Shall subsection 3 carry?

Some Hon. SENATORS: Carried.

The CHAIRMAN: Next we come to subsection 4.

Dr. EATON: That is putting back in the law what was there before. The only tax is a 10 per cent tax on motion picture films. The rest of the copyright is out. In repealing the copyright provision we had to re-enact the provision relating to motion picture films. There is no change in the law insofar as motion picture films are concerned.

Hon. Mr. HAYDEN: It is a 10 per cent withholding?

Mr. GAVSIE: Yes. There is no change in that.

Subsection (4) was agreed to.

The CHAIRMAN: The next is subsection (5), dealing with dividends, etc.

Dr. EATON: That deals with a very technical situation. I mentioned it a while ago in discussing an amendment relating to a company that claimed to be a non-resident company even though it was making loans of \$500 or more in Canada. We corrected that situation. There was a provision in the law that the 5 per cent rate, the parent-subsidiary rate, could not be enjoyed by a company if more than 25 per cent of its income was from interest and dividends other than interest and dividends from a wholly-owned subsidiary. So a company which was actually carrying on the loan business was unable, through that exclusion, to get the 5 per cent rate on parent-subsidiary dividends, when it seemed quite right that they should, the same as any other company carrying on business in Canada. The amendment here is to say that that exclusion relating to income in the form of interest shall not apply to a company whose chief business is the making of loans and earning of interest.

Hon. Mr. HAYDEN: You have extended the law.

Dr. EATON: Yes. It is beneficial.

Hon. Mr. HORNER: That may be a lending company or insurance company?

Mr. GAVSIE: A lending company.