

analyzing it in this way. So much capital is subscribed, so much capital is paid up. That which is paid up is actually the capital of the business. Now, by profitable investment that may be multiplied many times over and not distributed. But I do not think you can regard that which is retained in the business as really an augmentation of the capital. For a time it may be employed in that way, but it must be severable from the capital. If you are winding the business up, a man takes out just exactly what he put in, and everything over that must be and is income; it can be nothing else. That is why I am using the word "returned." After you have returned the capital, whatever it is, then to my mind, it is quite legitimate that the government should have power to tax the rest, although it might vastly exceed the capital, because that is income, but income which has not been distributed during the years the company has been in existence.

Mr. ROBB: My hon. friend should read that in regard to the case of a company which originally sold its bonds at 80 or 90 cents on the \$1, with a bonus of common stock. I think all things considered we had better leave the clause as it is and trust the administration to regard the interests of the country. After all, it is the interests of the country we are looking after, not the individual requirements.

Mr. JACOBS: Not the interests of the people who compose the country?

Mr. CALDWELL: I think you can get a better wording. In a reorganization the capital is not returned to anybody, it is still in the business. A better wording would be, "after allowing for the paid up capital."

Mr. ROBB: I should like the committee to keep in mind that surplus profits are accumulated and tucked away in an effort to evade taxation, and therefore when the time comes to reorganize or wind up the business I think the commissioner should have a free hand to look carefully into the matter.

Sir HENRY DRAYTON: Is the wording sufficient if that be the object?

Mr. ROBB: I think so.

Sir HENRY DRAYTON: What about surpluses, refunds and the like, that are not described as income at all?

Mr. ROBB: Under the act now if they are distributed they are surpluses and taxable.

Sir HENRY DRAYTON: Because they become income on distribution. But there is no distribution on a reorganization.

[Mr. Baxter.]

Mr. BAXTER: If you leave it as it is, Mr. Chairman, I do not know whether it will carry out the minister's intention, but if it has to be construed I think that while something is to be deemed the payment of the dividend, that something is the property of the company to the extent that the company had on hand undistributed income. I think you will have to go through precisely that process of ascertaining the capital, and that all that is surplus over the capital will be undistributed income. I do not think the amendment which I am suggesting makes a particle of difference in the real construction of the section, but I believe it will help make it plainer to people who have to deal with it. But I cannot see that you can construe this section so you can really tax capital; you will only be able to get at the surplus over capital.

Mr. ROBB: That is all.

Mr. BAXTER: And it will not reach the case of what you might call watered capital. If the minister wants to be able to squeeze out water, he will have to get some much more comprehensive language than he has here, otherwise while the department may administer the section the way he wants it to be administered, some court will stay the hand of the department.

Mr. ROBB: The House will observe that this deals only with surplus distribution.

Sir HENRY DRAYTON: Does it say so?

Mr. ROBB: Yes, in the margin.

Sir HENRY DRAYTON: You cannot read the margin; that is not part of the act at all.

Mr. BAXTER: Surplus over what? The minister will see if he gives expression to the side note that he must still make up his mind what it is to be the surplus to. Is it to be surplus to the nominal capital actually issued; or is it to be surplus to the amount people have actually paid for that capital; or to what is it to be surplus? You have got to define that first, and then you can easily provide for taxing the surplus, but unless you do define it you will have it in an absolutely nebulous state.

Mr. ROBB: May I give the House the definition of income as it is used in the original act?

For the purposes of this act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from