

The purpose of that is that it makes the date June 30th instead of May 10th. The extension applies if the right to control was there on May 10th. The wording is different from what I had the other day, but it covers the same situation, only more of it.

The CHAIRMAN: Would you explain it, Dr. Eaton?

Dr. EATON: The general substance of the section?

The CHAIRMAN: Yes, the substance of the section with the amendment.

Dr. EATON: The general substance of the amendment is this: section 27 of our present law is the section of the law which allows inter-company dividends to pass freely without taxation in the hands of the receiving corporation. That is the general law. Ordinarily one corporation owning shares in another can receive a dividend from the controlled corporation without tax. It is in effect an avoidance of triple taxation. Where dividends move from one corporation to the other the law says that the second corporation need not pay a tax on it. This provision in clause 11 establishes an exception to that general rule. The exception is that, in the case of a corporation acquiring control of another, from a certain date onwards, namely May 10th, dividends passing from the controlled to the controlling corporation shall be exempt in the hands of the controlling corporation only to the extent of the earnings of the controlled company following the date of control—earnings less tax.

Hon. Mr. DUTREMBLAY: I do not understand what that means.

The CHAIRMAN: Would you repeat part of that again?

Hon. Mr. HAIG: I do not want to butt in, but I happen to know something about this.

The CHAIRMAN: We will ask Senator Haig to explain it.

Hon. Mr. HAIG: A company that has quite a large surplus composed of earnings wants to amalgamate with another company. The law has been that the new company would take over these surplus earnings into its capital structure.

Hon. Mr. DUTREMBLAY: That is, supposing a company actually has some interest in another corporation.

Hon. Mr. HAIG: No: what this amendment is proposing is simply this. Company A has no surplus, company B has a very large surplus of earnings which have never been paid out in dividends; company C is buying them both out and amalgamating them. I, representing company C, have got control of all the stock in A and of 97 per cent of the stock in B company. I know of a case where the people concerned in a transaction of this kind have been negotiating for about seven months; there are a large number of shareholders, scattered all over the province, and they have got them together, and the stock has all been deposited with a trust company, and all the money has been lodged with the company. Knowing nothing of this proposed legislation, they decided to have a meeting in order to pay over the money. Now they are caught with this amendment.

Hon. Mr. DUTREMBLAY: What will happen to those who in the meantime have bought some stock?

The CHAIRMAN: Just a minute.

Hon. Mr. HAIG: The law proposed under this section is that you cannot do this kind of thing in future unless you pay up under the 15 per cent tax provision, unless you pay the 38 per cent. Section 11 provides that in future two companies cannot be amalgamated in this way unless, before the amalgamation takes place, tax is paid on the surplus money.

Hon. Mr. McKEEN: I think what Senator DuTremblay wanted to know was whether companies which now have the control referred to can continue to pay back and forth. This applies only in the case of new companies.