

taken as one, and the business has practically stood still. I think the firm did a wise thing in paying no dividends. If you are going to tax this undistributed \$100,000 which they made in the third year, you are going to do an injury, because you are asking them to pay on profits that were never made.

Sir THOMAS WHITE: That would be a case in which the discretion of the minister could be exercised, as provided in the subsection. It is only where the intent is to defeat the Act that these undistributed profits will be subject to the supertax.

Mr. NESBITT: There is a style of company that I am sure the minister thoroughly understands, and which I think he had in his mind when speaking a few moments ago. The section says:

The share of any gains or profits made by any syndicate, trust, association, corporation or other body, or any partnership, to which a taxpayer would be entitled if such profits or gain were divided.

That means the individual shareholder. Now there are many companies in Canada at the present time that are working largely on borrowed capital, and if they are borrowing money from the bank, the bank will not allow them to distribute their profits in the form of dividends, because those profits are needed in the business. You are taxing them four per cent. Now, it is not the fault of the shareholders that these profits were not distributed—they, of course, would like very much to have them distributed—but as a matter of fact it might ruin the business if the profits were distributed. I would like the minister to take that into serious consideration, because he knows that a great many joint stock companies are in that identical position, and he knows further that since the war started, on account of the enormous advance in the cost of raw material, the money they have been able to borrow from the bank does not go nearly so far as it did before the war. Consequently, the firms require more money and the banks will not allow the profits to be distributed in the way of dividends. To punish the shareholder as he would be punished here is, in my judgment, rather harsh treatment.

Sir THOMAS WHITE: I think my hon. friend is right. I had considered this matter a little before coming to the committee, and I am now prepared to move that, beginning on line 7 of page 2, the following words be struck out:

The share of any gains or profits made by any syndicate, trust, association, corporation or other body, or any partnership, to which a taxpayer would be entitled if such profits or gain were divided or distributed.

I also beg to move that after the word "also" in line 11, there be inserted the words "the annual."

Mr. A. K. MACLEAN: I was wondering whether the minister intended these words to cover the case of insurance companies,—or is there a special provision for that purpose in the Bill? An insurance company, for instance, whether mutual or otherwise, is in receipt of a large income in the shape of premiums. It is true that such premium income cannot be regarded as income in the ordinary sense of the term, and it would be unfair to the policyholders so to construe it.

Sir THOMAS WHITE: Subsection (f) of section 5 says that among the incomes that shall not be liable to taxation are:

(f) The incomes of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof.

Would that cover the case my hon. friend has in mind?

Mr. A. K. MACLEAN: I wished to say a word or two about undistributed profits. There must be some provision in the Bill for taxing undistributed profits in some way or other.

Sir THOMAS WHITE: There is.

Mr. A. K. MACLEAN: I was going to give the minister the benefit of a suggestion contained in a proposed amendment to the United States Income Tax Act. I have merely a summary of it here, but probably the minister has seen it. By this amendment it is proposed to:

impose a tax in addition to the income tax, of 15 per cent upon the amount remaining undistributed 60 days after the end of each calendar or fiscal year of the total net income received during the year, including dividends. The tax, however, does not apply to:

(1) That portion of the undistributed profits used for the establishment or maintenance of reserves required by law, or

(2) That portion of the undistributed profits of railroads used, with the approval of the Interstate Commerce Commission, or if not subject to the jurisdiction of the Commission, with the approval of the state or local authorities having jurisdiction over such expenditure, for extensions, renewals, or betterments, or

(3) An amount of undistributed profits equal to 20 per cent of such net income of corporations directly engaged in the production or distribution of commodities or in banking, so long as it is employed in the business.