

profits which it had made as the result, directly or indirectly, of the outbreak of the war.

Mr. A. K. MACLEAN: No matter what may be the point of view of the Treasury Department, I fail to see how the minister can logically argue that it is not a liability to the shareholder which must be redeemed; and, so long as it is outstanding, how can you say that there were profits which you should tax?

Sir THOMAS WHITE: Are they declared? My hon. friend as a lawyer knows there is a difference between dividends declared and dividends earned.

Mr. MACLEAN: There is a distinction, but would it be fair for the department to rest upon a technicality of that kind, even if the dividends were declared but not paid? I would assume it was a liability. That liability should be discharged before the profits are taxable. I do not see any reason in equity why the same reasoning should not prevail whether or not there was a declaration of dividends. Of course, the minister can overcome that by some specific legislation on the point; but I do not think that, under his resolutions as they stand at present, he could hold that a company could not pay past dividends, whether declared or not declared; I mean in connection with preferred cumulative shares.

Sir THOMAS WHITE: The Act applies to any profits made in the accounting period. There is really no difference in principle between dealing with preferred shares and common shares. Preferred shares may be cumulative; that is to say, an arrangement may have been made by

4 p.m. legislative authority or by the shareholders among themselves whereby no dividends are to be

paid upon the common stock until dividends at a certain rate have been paid upon the preferred stock. But there is no essential difference between the two stocks as to their character; so far as the public is concerned, they are both capital. It would be just as logical to argue that because a company had not paid dividends for some years upon its common stock, that should be taken into consideration, as it is to argue that all back dividends upon preferred stock should be paid before this tax becomes operative. My hon. friend, as a lawyer, knows that there is a difference between declared dividends and dividends which are cumulative but not declared. There is a real difference there, and we are dealing with the case of

cumulative dividends not declared. As to what the legal effect would be of a declaration with respect to cumulative profits, I am not prepared to say for the moment; but the intention of this Act is to assess any profits arising in the accounting period.

Mr. NESBITT: The minister's illustration is so far away from the companies I have in mind that it has little bearing. He talks about the companies earning 25 per cent on both their common and preferred stock on account of the war. That is not the kind of company I was asking about. I am asking about companies that earn nothing extra on account of the war; the war has nothing to do with their earnings. I refer to companies which, say, the year before the war broke out, that is, in 1913—assuming that their financial year ended on the 1st of April—earned their dividends; but were prevented from declaring and paying them owing to the objections of the banks. I am speaking of companies that did not earn any 25 or 20 per cent, but earned their dividend, whatever it may be, 6 per cent or 7 per cent, on the cumulative shares, but did not pay it in 1914. The war broke out only in August, 1914, and the next fiscal year ends on the 1st of April, 1915. The minister can see that, long before the war affected them at all, they had made half their earnings for the year; that is, during the period between April and August. They have earned their dividend, we will say 6 per cent or 7 per cent, but they have not paid it on account of the objection of their bank. The directors, perhaps, have not declared it, because there is not much use declaring a dividend unless you are in a position to pay it; your shareholders expect you to pay it if you declare it. That is what I mean, and I do not think it is right for the minister to impose his tax in such a case. There may be exceptional cases such as he quotes, and in these cases I think the companies should pay, where there are earnings of 20 or 25 per cent, or even 10 or 12 per cent. But where they have just earned their dividend out of their own legitimate business, and they owe it to the shareholders, I think the minister ought to except them; and I believe that when he thinks it over he will come to the same conclusion, because all we want is what is fair in this or in any other business.

Mr. HUGHES: In the case of an ordinary industrial company that made last