

Precedents

The principle of avoiding triple taxation upon profits passing through the medium of companies whose true function is to provide diversified investment for large numbers of relatively small investors is recognized under the existing United States income tax laws which exempt from taxation "mutual type investment companies" whose practice it is to distribute to their security holders substantially all net income in the form of taxable dividends.

This principle is also reflected under the Quebec Corporation Tax Act which, in the cases of companies whose sole business consists of holding the securities of other incorporated companies and governments, authorizes by order-in-council a reduction in the rate of tax on profits from 2½% to 1/20 of 1%, and also a substantial reduction in the capital tax of such companies.

Submissions

It is therefore respectfully requested that in the case of public incorporated companies whose function is that of providing diversified investment, and which distribute to security holders in the form of taxable dividends or interest substantially all of their net income, consideration be given to adding a new section to the Income War Tax Act relieving such companies from income tax liability upon their income. The following is suggested as a section to be inserted in the Act, which is designed to limit its application to the type of company above mentioned:-

"Section

1. Any investment company not otherwise covered under this Act shall not be subject to tax upon its income or profits, if
  - (a) It was organized as a public company for the purpose of providing diversified investment and substantially all of its business consists of holding, investing or