

Q.—Is a stock dividend declared and paid out of surplus (created out of profits of years previous to the Income Tax legislation) subject to individual income tax? That is, will the individual have to pay income tax on this stock dividend?

A.—No.

Q.—How should a company with a capital of \$40,000 at the beginning of 1918 be taxed?

A.—Be taxed on its profits in excess of 10% of its capital employed to the extent of 25% of those profits. There is a question here covering several pages relating to the income tax. I will put it in my pocket and send a written answer.

Q.—With reference to the ruling that in the computation of capital goodwill is not allowed except in so far as it can be proved to be represented by actual cash expenditure, and in view of the fact that the principal asset of a trade paper publishing company is its goodwill, it is represented that to strike out goodwill would be unfair. Where the property has always been in the hands of one company it might be fair to take the loss which such companies invariably make in the early years as actual expenditure on goodwill, but where the property has changed hands several times, as often happens, it may be impossible to ascertain the exact aggregate of such expenditure.

A.—The viewpoint of the Department is that goodwill cannot be treated as an asset. If it were so treated, every company would have a right to it. Therefore unless special circumstances warrant a departure from that rule, goodwill cannot be regarded as an asset. There may be cases where goodwill is represented by actual cash expenditure for which there is no asset; in such cases it would be fair to consider what proportion of the asset claimed to be goodwill is represented by that cash expenditure. Each such case would have to be treated on its merits, but the general rule is that goodwill cannot be treated as an asset, because it is nothing more than watered stock, and I do not think there is anyone who considers that any value should be placed on watered stock.

Q.—We understand the principle, but this is a general class of business which it is submitted is an exception, and that it would be a distinct hardship if goodwill was not allowed as an asset in their case. Such publications could not be acquired in the market at anything like the value of their physical assets only.

A.—That is true in regard to publications owned by a company, but the same treatment would have to be accorded to those owned by a private party or partnership; the mere fact of being incorporated as a company should not allow that company to set up one or two hundred thousand dollars for goodwill, and the partnership nothing.