

cent because the company earned at that rate.

Sir WILFRID LAURIER: I present my views to my hon. friend as I understand this Bill. The principle of the measure is that every entity should be taxed—a corporation, a partnership; and then besides that, the partners or the shareholders who receive their share of the profits. Every business ascertains its profits for the year. Then it considers its liabilities, the contingent possibilities in the way of losses or the need for improvements. After having provided for these things, it distributes to its shareholders or to its partners the excess profits. My hon. friend taxes first the profits of the company, and then he taxes what is left in the entity, that is to say, in the partnership or association. Then he taxes also what comes to the shareholders or the partners. I raise no objection. But the measure may work a very severe hardship to a corporation. Suppose a corporation has earned \$100,000 of profits during the year and distributed \$50,000 to its shareholders and retains \$50,000 to provide for contingent liabilities, or necessities, or losses. The minister takes the power to assess the corporation in respect of what may be its intention in so acting. Every association, whether it be a partnership or a corporation, works for individuals. If it keeps its profits in its coffers, it is to that extent acting to the detriment of the partners or shareholders, but for the benefit of the partnership, and in that way for the ultimate benefit of the partners or shareholders. Therefore, if it keeps that amount back in good faith for the interest of the company, I think that should be taken into consideration. If on the other hand this action is taken to evade taxation and to cheat the revenue, that is a different matter. It seems that in this measure no distinction is made between an honest intention and a fraudulent intention. We presume that the intention on the part of the taxpayer would be to have the Bill honestly enforced. This should be taken into consideration.

Sir THOMAS WHITE: I think no difficulty is likely to arise in the case presented by my right hon. friend. Take such a case as he mentions—that of a company earning profits of \$100,000.

It is proper for that company to deduct from its gross revenue enough to make allowance for bad and doubtful debts and for any contingent liabilities—I am not speaking of some liability of a fanciful nature that might be expected in the remote future.

[Sir Thomas White.]

When these items are deducted from the gross revenue the result is the net profits. Having done that—and it is open to a company to do that, and companies do it, because it is sound from an accounting standpoint—if the company has still a net income of \$100,000, even although it distributes only \$50,000 to its shareholders, it should pay the normal tax of 4 per cent upon the whole \$100,000. That is its net income, just as my hon. friend's net income is the amount which he derives as an individual.

My right hon. friend, I think, is a little mistaken, possibly, as to how we assess partnerships. We do not assess a partnership as an entity; the assessment is not against the partnership, but against the individual partners. We assess a joint stock company upon its net earnings, according to the proper definition of that term, making them pay the normal rate of 4 per cent. In the case of the shareholders of that company, who pay upon income partly made up from the dividends received from the company, under a provision which we shall reach later on in the Act, an allowance is made to the extent of the dividends which were taxable which they have received from the company. The provision to which I specially draw attention is to prevent privately-owned companies—companies with a few shareholders, family concerns—from paying out small dividends and accumulating an immense reserve which could be distributed at a later date.

Mr. GRAHAM: A close corporation.

Sir THOMAS WHITE: Yes. In the United States it was found that there was a great evasion of the tax, and some of our provisions have been modelled on their measures in the drafting of which they have had a good many years' experience.

Sir HERBERT AMES: Let me cite a case in connection with undistributed profits which would work a very real hardship. The figures I shall give are not exact, but it is a case of which I have personal knowledge. We are going to tax the revenues of 1917. Now I know of a firm that ran behind \$100,000 in the year 1915. In the year 1916 it came out about even, and in the year 1917 it made \$100,000. They always carried forward from year to year a certain amount of profit and loss out of which the dividends are paid. Now in the third year, although \$100,000 had been made, in view of the fact that nothing had been made in the previous year, and \$100,000 lost the year before, no dividends were paid. The three years were