

Hon. Mr. NICOL: Does that apply only to those corporations?

Dr. EATON: No, sir. It applies to any corporation more than 50 per cent of whose shares are held by non-residents.

Hon. Mr. HORNER: It says here "where the stock dividend has been declared by a non-resident corporation, more than 50 per cent of the share capital of which (having full voting rights under all circumstances) belongs to non-resident persons". What is the meaning of the clause?

Dr. EATON: This, that non-residents control the policy of the company, and in declaring stock dividends or capitalizing, Canadian companies have to be very careful of that, or they will bring on a terrific tax liability on their shoulders through capitalization of undistributed income on hand; and it seemed somewhat unfair that a corporation over which Canadians have no control could, for reasons of their own, quite apart from any tax question, go ahead and act and inadvertently bring on a terrific tax liability on Canadian shareholders.

Mr. GAVSIE: The "non-resident persons" are Canadians. In other words, they are non-residents, compared with the "non-resident corporation", which is in the United States. Those are Canadian shareholders receiving a stock dividend from an American corporation and not subject to tax. The benefit is to the Canadians.

Subsection (2) was agreed to.

Mr. GAVSIE: Subsection (3) is just to take out "or 28".

The CHAIRMAN: Technical.

The subsection was agreed to.

The CHAIRMAN: Subsection (4) relates to the definition of "loss". Here again it is a technical change to omit the words "or 28".

The subsection was agreed to.

Dr. EATON: The effect of subsection (5) is to take directors' fees out from under the investment tax of 4 per cent.

Hon. Mr. HAYDEN: It is part of general income?

Dr. EATON: That is correct.

Hon. Mr. HUGESSEN: To treat them as earned income?

Dr. EATON: Yes.

Mr. GAVSIE: Subsection (6) is amended for exactly the same reason.

The subsection was agreed to.

The CHAIRMAN: Subsection (7) deals with the definition of "taxation year".

Dr. EATON: There is an ambiguity in the present law, where a company changes its fiscal year, and where it does, it has two fiscal periods ending in one year, on the question of what constitutes a taxation year for purposes of taxation, purposes of the law. It is amended so that any fiscal period ending in the year is a fiscal year.

The subsection was agreed to.

The section was agreed to.

On section 46—investigation, etcetera.

The CHAIRMAN: This section deals with the repeal of subsection (10) of section 129 and substitutes a new subsection therefor.

Mr. GAVSIE: The purpose of this is that the collection procedure and the enforcement procedure that are applicable to the new act will be applicable to outstanding accounts under the old act. The position we are in now is, to take the taxpayer who owes taxes for 1945, 1946, 1948, 1949 and 1950, to have two procedures running against him when we have to take collection action.