ally understood, in their business. In the case of a private firm, we have a certain amount of cash, we have goods, we have real estate, used in the connection with the business, and we have liabilities. Deduct the liabilities from the total assets and you have the capital. In the case of an ordinary company whose shares have been paid in full in cash, if that capital so obtained by the company had not been impaired, then the capital would be the amount paid in on its shares. My hon. friend mentions the case of a company that has paid out a good deal for organization. It would seem to me that that payment is expenditure; that is to say, the capital of the company in one sense at least, has been depleted by payment out for the expense of organization. My hon. friend has in mind that the organization itself representing an amount paid out of capital, is of value; he asks whether that should be allowed as capital for the purposes of this Act. My view would be that, generally speaking, it would not. It is conceivable that there might be cases in which an allowance should be made, but if I were to make a general statement, it would be against such an allowance.

Mr. NESBITT: Frequently preferred stock is sold at par. If it is handled by brokers, a commission is paid for the handling, and that commission is charged to organization. As a rule the brokers are given common stock for that commission. Does the minister not think it is fair to allow that as capital, so far as it has been legitimately paid to brokers or otherwise, for selling the stock?

Sir THOMAS WHITE: I think it would not be proper to consider what was paid to brokers for selling the stock We desire to place the over-capitalized company, so far as we can, on the basis of the company that is not over-capitalized and on the basis of the individual and partnership firm that is engaged in business. Therefore it gets down to this question: what is the value of the assets, real and personal, movable and immovable, of the company, and what are its liabilities? If we could ascertain that accurately, and subtract the liabilities from the assets, we would have the value of the stock, of the rest and reserve and accumulated profits of a company, whether over-capitalized or properly capitalized. I do not think that it would advance the consideration of the matter very much to inquire whether common stock given for an intangible consideration, such as goodwill

[Sir Thomas White.]

or organization, should be allowed at its par value. I would eliminate these intangible features. That is to say, I want to eliminate capitalized goodwill, except in exceptional cases. I want to eliminate organization expenses, in order that all over-capitalized companies, properly capitalized companies, and individual firms may be on the same basis so far as this taxation is concerned.

Mr. NESBITT: If a company owed dividends on its accumulated preferred stock, would that be allowed as a liability?

Sir THOMAS WHITE: A dividend, if declared—and not until it is declared—is a liability of a company, I believe, as between it and its shareholders. But for the purposes of this Act we could not regard as liability accumulated dividends on preference stock; I do not think it just that we should. A good deal is to be said for the fact that the dividends have not been paid upon the preference stock, but, on the other hand, if the company becomes liable under this Act, it only means that since the outbreak of the war it has been able to make profits that it did not make before. Therefore we think it proper that they should pay a certain amount of the profits so derived to the State.

Mr. NESBITT: I had not in mind a company that had made profits out of the war; I meant the ordinary company. During 1913-14, many companies did not pay their preferred dividends. These preferred dividends were accumulated, and, in my judgment, are an absolute indebtedness of the company—that is, if they were earned. Owing to lack of banking facilities, these dividends were not paid. In other words, the banks got very stringent with reference to the paying of dividends. The dividends were carried on the books of the company as a liability, and they were a liability of the corporation proper.

Sir THOMAS WHITE: I think my hon. friend will see where that would lead us. Assuming that a company of that kind has paid no dividends on its preferred stock for three or four years, but, since the outbreak of the war, has earned 25 per cent upon its capital, which includes its preferred capital as well as its common capital, this Act would apply to the earnings so made for the accounting periods ending since the outbreak of war. I think it is proper that it should; otherwise the company would escape from paying, where others were paying, a portion of the excess