

Q.—The reason I ask that is that it was rumored that the principle which you say has been adopted by the Department, would be changed.

A.—I may say that the principle of treating the tax paid as an expense of the following period could not very well be departed from at this time without doing an injustice to thousands of taxpayers. I do not think there is any probability of it being changed while the Act is in force.

Q.—Is it the intention of the Department to regard the tax as a distribution of profits rather than an item of business expense, and if so will this apply to tax paid under the Business Profits War Tax Act accretion of capital during the fiscal year, and reduction of capital by dividends paid? Is it the practice of the Department to regard the profits of a business as being made only at the close of the fiscal year, and payment of dividends as being a reduction of capital at the time the dividend is paid?

A.—For the purpose of capital it is the accumulated profits at the commencement of the period. The Act states that the dividends paid during the accounting period shall be considered as a reduction of unimpaired reserve, rest, or accumulated profits, not of the capital itself.

Q.—It amounts to the same thing?

A.—No, it does not.

Q.—In calculating the amount of the capital exemption?

A.—Yes, but in cases where the dividend paid has been more than the accumulated profits on hand at the commencement of the period the capital stock is not impaired in any way.

Q.—But in this case the dividend may be paid for the current year and paid quarterly, but the exemption is allowed of the amount of the fully paid up capital.

A.—Plus the amount of the accumulated profits that remain in the business; that is, if it is paid quarterly deduct the first three months, all accumulated profits left are treated as capital, then we deduct the amount of the dividend from that profit and continue the balance for the next three months.

Q.—You presume there has been no profit for the first three months?

A.—We do not presume anything; the Act decides.

Q.—If the profit and loss account of a company determines the profits quarterly, can these quarterly profits be added to capital for the purpose of claiming an exemption as an offset to the reduction caused by the payment of the dividend?

A.—No, that would be contrary to the provisions of the Act.