

By Mr. Sommerville:

Q. Look at your financial statement for 1932.—A. 1932?

Q. Yes, 1932.—A. Yes, sir.

Q. On page 2, your net profit for the year is shown at \$5,471,175.08?—A. Yes, sir.

Q. And added to that are certain items that are included, bringing your total profits up to \$6,974,260.04?—A. Yes, sir.

Q. And from that there are deducted certain amounts?—A. Yes, sir.

Q. For taxation purposes?—A. Well, deducted in arriving at the tax.

Q. At the taxable amount?—A. Yes, sir.

Q. And the amount that is deducted, or at least one of the amounts that is deducted is \$475,000?—A. Yes, sir.

Q. And the reason that that is deducted, you say, is because it was included in the statement of your income in arriving at the profit?—A. That is right. Maybe I can make it clear in this way. The \$800,000 is the amount of dividends received. Now, dividends are not taxable. The Tuckett Tobacco Company paid its own tax, and we set up a reserve of \$325,000 and charge it to income, so that it left a net difference in income of \$475,000. Now, in order to arrive at the amount—from the Imperial Tobacco Company's point of view—that is taxable, whatever amount this was included in that income should be deducted, therefore, the amount is \$475,000.

By Mr. Kennedy (Peace River):

Q. The Imperial Tobacco Company did not pay income tax on this \$475,000?—A. No, sir.

By Mr. Sommerville:

Q. Nor on the \$325,000, since the Tuckett Tobacco Company had already paid it?—A. Yes, sir.

By Mr. Ilsley:

Q. What is the reason for doing this, for deducting \$325,000 from your income and setting it up as a reserve from the dividends of a particular subsidiary company? Why do that rather than take an appropriation for reserve out of your income as a whole? Is there any reason for following one practice rather than the other? What is the reason for it?—A. In our judgment, it was conservative financing. We have got, as you say, a certain amount paid by the Tuckett Tobacco Company as dividends, and we thought it was conservative business not to take the full amount of the dividends but to set up a reserve, and that was the method used to do it. I suppose we just did not consider your method—

Q. It is not my method, but it is the natural method, I would think. You did the same thing with your jobbing companies?—A. Yes.

Q. Well, does the appropriation of a certain amount for reserves out of dividends from particular companies have anything to do with the prospects of those companies, the hazard of carrying on the business of those particular companies?—A. Yes.

Q. Then that would be the reason?—A. There is always a hazard, sir, in any investment.

Q. I know, but has this particular accounting practice anything to do with the hazard of the company in respect of which you make the deduction as a reserve, or has it not?—A. Well, let me be sure I understand your question, I want to be perfectly honest.

Q. I hope I do myself, but what I understood you to say was, that in your jobbing companies and in this Tuckett Tobacco Company you have certain dividends which normally would be put in your books as income?—A. Yes.