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FOUND MONEY—IS IT CAPITAL OR INCOME?

The name of this article was suggested to me by a bank manager. Having adopted his designation, more for convenience than anything else, I will in the first place define, or rather illustrate, its meaning.

Let us suppose A. to be the owner of one hundred shares in a company, either a bank or other private corporation. The company, through its directorate, or otherwise, adds to its capital by increasing the number of its shares by one-fifth: so that for every one hundred shares there will be an increase of twenty new shares. These new shares are offered by the company to the registered shareholders at a certain price, usually or always, a price below the market value. A. being the owner of one hundred shares is entitled to twenty new shares. He is not bound to accept them or any of them. He may accept them, and if he pays for them he becomes the owner. Let us now suppose that the original par value of each share was one hundred dollars, that the market value of each share is now one hundred and fifty dollars, and the company offers its new shares for one hundred and forty dollars each, thus allotting to A. twenty new shares, or rather the right to purchase twenty new shares at the price stated. A. finds a purchaser for his twenty new shares, who pays him ten dollars a share for his rights in these twenty new shares. A. transfers these rights to the purchaser, receives two hundred dollars, and if no one is interested in the transaction but himself, puts the money in his pocket, and it matters not whether he puts it in the *income* or *capital* pocket. The above will shew what I mean by the words "found money."

Now, let us suppose that A. instead of being possessed of these shares in his own name and for his own personal use and