

in Canada, and in that case how would the minister make the collection?

Sir THOMAS WHITE: It is not proposed to make collections against an American firm. In the case to which the hon. gentleman refers the Government of Canada made a purchase from an American firm of goods to a certain amount. It would not be possible for the Government to make a levy upon a firm domiciled in the United States and not carrying on business in this country.

Mr. LOGGIE: It would be if you tax gross sales.

Sir THOMAS WHITE: It would not be possible for the Government to revise its contract and make a deduction of five per cent; it would be contrary to international law.

Mr. NESBITT: What does the minister mean by "net profits"? Most of the companies are in the habit of allowing a reserve for depreciation of plant—from five per cent to ten per cent, according to the kind of business; does the minister intend that they shall still be allowed that in their statements? Then, some companies have assumed as assets organization or goodwill; does the minister purpose making any allowance for organization in the capital stock in arriving at the basis of taxation?

Sir THOMAS WHITE: The term "net profits" has, I believe, a well-understood significance under legal decisions. Gross profits are, of course, the entire profits derived by the company, and, in order to get at the net profits, there should be deducted from the gross profits all costs and charges of administration, including, of course, interest upon debentures or money borrowed. Thus, in companies such as, I think, the hon. gentleman has in view, it will be proper to deduct an amount for depreciation of plant. We discussed that matter on Friday, in the absence of my hon. friend, and on that occasion I stated that the percentage which should be allowed for depreciation was a question of fact. In one class of business it might be greater than in another, and in the case of an individual business it might be greater than in another business of the same character. In each instance it is a question of fact. But, as to the principle of the charge for depreciation, there is no doubt that a proper charge should be deducted from gross profits in order to reach net profits. The hon. gentleman has asked with regard to

organization and good will. These present difficulties, I should say that, unless in exceptional cases, such as I have not in mind at the present time, organization charges should not be allowed as part of capital. There may be cases in which it would be proper to allow such charges as part of capital; but, as I say, I have not any such case in mind at the present time. So far as goodwill is concerned, the English Act allows the commissioners discretion in that regard. There might be cases in which a certain amount would be allowed for goodwill, but, generally speaking, the act contemplates tangible capital, that is to say, assets, real and personal, movable and immovable, less liabilities.

Mr. NESBITT: I understood the minister to say some days ago that the matter of what would be allowable as capital in respect of what we call over-capitalized companies would be referred to the Minister of Finance. There are instances where companies not over-capitalized have credited themselves with a certain amount for organization, which, as the minister knows, is a very legitimate and necessary expense in connection with starting a business. In cases where the organization expense was absolutely legitimate, does the minister purpose allowing that expense as capital?

Sir THOMAS WHITE: I should hesitate to make a general statement about that: I should not like to make the assertion that it would be allowed in every case, or that it would be disallowed. There might be cases in which a certain amount for organization would be properly allowable as capital, but my judgment would be that, in most cases, it should not be allowed as capital. We should deal with more tangible assets.

Mr. NESBITT: It often occurs that each year such companies as I mention write off out of their profits a certain amount against organization. If that is legitimate, and I think it is, it would seem reasonable that the minister should allow that as capital for the purposes of this Act.

Sir THOMAS WHITE: I do not think that I can advance the matter any further than I have. The desire is, so far as possible, to put the over-capitalized company, so called, upon the basis of companies that are capitalized on the basis of payment in cash for their shares, and on the basis of individuals, firms and partnerships that have a certain amount of capital, as usu-