

Mr. NESBITT: In other words, if they had invested their accumulated profits in plant or in additional stock—I mean not capital stock, but raw material—you would allow them to apply their cash assets against that stock. The provision is not very plain, I must say. It is a sort of contradiction.

Sir THOMAS WHITE: Perhaps my hon. friend will allow me to explain the section. The first sentence is:

The amount paid up on the capital stock of a company shall be the amount paid up in cash.

That is clear. Then, the next sentence:

Where stock was issued before the first day of January, 1915, for any consideration other than cash, the fair value of such stock on such date shall be deemed to be the amount paid up on such stock.

How do we ascertain what the fair value of such stock on such date is? Look at the sentence before the last:

In estimating the value of stock issued for any consideration other than cash, regard shall be had to the value of the assets, real and personal, movable and immovable, and to the liabilities of the company at the date as of which such value is to be determined.

Let us make the application. Here is a company with assets valued at \$5,000,000, and with liabilities of \$3,000,000. Its real capital, the difference between \$3,000,000 and \$5,000,000, is \$2,000,000. But the company may have been over capitalized; it may have been capitalized at \$6,000,000, whereas it has only \$2,000,000 of real capital. You would allow, therefore, \$2,000,000 as the true capital for the purposes of this Act. In other words, we are shrinking the over-capitalization; we are putting the over-capitalized company on the same basis, so far as we are able, as the company which has not been over-capitalized and whose shares are paid in cash.

Mr. NESBITT: I thought that was what the minister meant, but, with all due deference to him, I do not think that the clause is very clear.

Sir THOMAS WHITE: There is no doubt that it is a complicated subject, but I think the language is apt. If there is any suggestion for improvement, it goes without saying that we shall be glad to consider it.

Paragraphs 6, 7 and 8, agreed to.

On paragraph 9:

9. An incorporated company may include as part of its capital, its actual, unimpaired reserve, rest or accumulated profits.

(2) The minister may determine the amount
[Sir Thomas White.]

of the capital of any incorporated company issuing stock after the fifteenth day of February, one thousand nine hundred and sixteen, and if, after the said fifteenth day of February, one thousand nine hundred and sixteen, the capital stock of any incorporated company is increased or additional stock is issued, or if the stock is in any way changed or re-organized in such manner as to increase the amount of the capital the minister may decide whether or not it is fair and proper to include such increase or any part thereof when determining the capital of such company, and the decision of the minister shall be final and conclusive.

Mr. A. K. MACLEAN: Could the minister give the committee a comprehensive definition of accumulated profits?

Sir THOMAS WHITE: If my hon. friend will observe the balance sheet of a financial company, he will find capital stock, reserves and accumulated profits. If a company makes \$100,000 of net profits and pays dividends of \$70,000, it has \$30,000 to carry forward in some form. Not infrequently any such balance is carried forward partly to reserve and partly in open profit and loss account. Perhaps \$20,000 of the \$30,000 is carried forward to reserve, and \$10,000 to profit and loss account. That would be accumulated profits; that is, profits accumulated in profit and loss account, and not specially taken into reserve. In reality, reserve, rest and accumulated profits all represent assets of the company in excess of its capital stock. It has its capital stock, it has its reserve, and it may have some accumulated profits, not yet taken out of profit and loss account and appropriated to reserve.

Paragraph 9 agreed to.

On paragraph 10, sub-paragraph 1:

10. That the capital employed in the business of any person other than an incorporated company shall be taken to be the fair value of all assets real and personal, movable and immovable, used in connection with such business.

Mr. MACDONALD: Does the minister purpose sending an appraiser to ascertain the fair value of assets, or will he ask each firm to make a statement?

Sir THOMAS WHITE: We will proceed by asking all firms and companies liable to the taxation to make a return. The Act provides for penalties for false returns. Then it would be for the department, and for the staff which we intend to organize to carry on the administration of this Act, to consider those returns, and to obtain such information as they may be able to obtain in regard to the firms making such returns.