

deducted in determining taxable income. Except where the buying and selling of securities is the main occupation of the taxpayer profits or losses on stock transactions must not be taken into consideration in determining taxable income, neither should losses sustained through endorsing notes. Profits or losses of real estate corporations on sales prior to the commencement of the 1917 accounting period will not be taken into account for income tax purposes. Contingent reserves set aside to provide against possible future losses are not a proper deduction from income. Money advanced by a mortgagee for protection of his security is a proper deduction from mortgage interest income, and when repaid will be taxable income for the year in which it is repaid, in addition to the interest received on the mortgage. Annual life insurance premiums paid by a corporation for insurance on the life of its officers cannot be deducted as a business expense.

Depreciation consists of a reasonable allowance for the wear and tear of property arising out of its use or employment, the amount allowed will be the amount of the loss occurring during the year to which the returns relate, estimated on the cost and the estimated lifetime of the property with respect to which such deduction is claimed.

There are many other points, but I think it well if I close my remarks here and allow you gentlemen to ask questions concerning points which have not been made clear.

Q.—Re Sec. 3, Business Profits War Tax Act, 1916, as amended to include companies with capital exceeding \$25,000 and not \$50,000, with the exemption of 10% and the tax of 25%, is it the intention of the Department to apply the graded tax to this class of companies, passing an Order-in-Council as a further amendment to Sec. 3?

A.—The Governor-in-Council has under certain legislation power to modify certain taxes, but Parliament reserves to itself the right to impose taxation. Parliament in this case has imposed a certain rate of taxation, and I doubt very much if the Governor-in-Council has any power to alter it.

Q.—Re Par. a, Sec. 3, the original was repealed and a new paragraph substituted which concludes with the following words: "but in computing the profits of his business no taxpayer shall include any tax paid under the said Acts in the expenses of his business."

A.—"The said Acts" include part 1, Special War Revenue Act, 1915, and the Income War Tax Act, 1917. If the taxes paid under these Acts were treated as an expense the taxpayer would be getting the amount both as an expense and also getting the benefit of the full amount as a reduction of the tax under the Business Profits War Tax Act.