*White Paper Proposals*

(a) Profits fully taxed, losses fully deductible.

(b) If worth less on valuation day than taxpayer's cost—or amortized cost if bought at discount—recovery of cost or amortized cost not treated as income.

*Comments and Recommendations*

**(a) Approved.**

**(b) In view of our general recommendations on valuation we approve the special rules regarding amortized cost for bonds, mortgages and agreements for sale set out in the White Paper and later extended by the Minister of Finance.**

**3.31-3.38**

4. *Shares of Canadian Corporations*

*White Paper Proposals*

(a) For closely held corporations, gains fully taxed, losses fully deductible.

(b) (i) For widely held corporations one-half gains taxable, one-half losses deductible.

(ii) Revaluation every five years, gains and losses taken into account.

*Comments and Recommendations*

**(a) In accordance with our general recommendation on capital gains above, we recommend that one-half of the gains on the sale of shares of closely held corporations be taxed, and one-half of the losses be deductible, in the manner already set out by us.**

**(b) (i) Approved.**

(ii) Undoubtedly the proposal for quinquennial revaluation has considerable merit. It has been approved by many eminent economists as a desirable innovation which would simplify problems of reorganizations and minimize lock-in effects. However, more than any other proposal in the White Paper, this one illustrates the difference in viewpoint between economists and others on the question of when a capital gain or loss should be taken into account for tax purposes.

Taxpayers appearing before the Committee have been almost unanimous in condemning the proposal. Very briefly, the main objections voiced to us are as follows:

(i) A controlling shareholder might be forced to sell shares in order to pay tax, and might lose control; this might also lead to sale to foreign buyers in such circumstances. It might also deter companies from going public.