

ever, now that two taxes in each country are being considered in respect of the same profits wherein in one country the income tax is a deduction in determining the excess profits tax, and that may be vice versa, in the other country, then this lack of parallel treatment produces in reciprocal tax considerations unusual burdens and difficulties.

Hence the necessity of referring to the income and excess profits taxes abroad in a combined sense being a deduction from the Canadian combined liabilities, provided always that substantially like treatment is afforded by foreign countries to those who have profits arising in Canada which are here taxed.

Tentative Amendment. This proposal would be effected by adding a proviso along the following lines to ss. 1 of s. 9:

Provided that the minister may in his discretion allow a taxpayer to claim as a combined deduction from his combined income tax and excess profits tax liabilities the combined taxes paid to Great Britain or any of its self-governing dominions or dependencies or to any other country between which country and Canada reciprocity exists if the minister is satisfied in the case of such foreign country that a similar deduction of Canadian taxes is allowed against their combined income and excess profits taxes.

And also by inserting the words: "or under this act and the Income War Tax Act combined as provided for in the proviso to subsection 1 hereof" immediately after the words "payable under this act" in subsection 2 of section 9.

13. Proposal. That the definition of capital be amended to require the deduction from the original asset values of the total amount of depreciation which has been taken into account in computing net income or loss for income tax purposes plus any accumulated depreciation reserves as at January, 1917, as recognized by the minister for purposes of the Income War Tax Act.

Explanation. Under the provision in section 3 (c) of the first schedule of the act as it is presently constituted the taxpayer is required to deduct only that depreciation which has been taken as a deduction from profits under the Income War Tax Act. This item in some cases is less than the total accumulated depreciation reflected in the depreciation reserve as computed for income tax purposes. This meant that depreciation reserves were composed of two parts, that part which had been advantageously used in reducing profits in years of profits and that part which was established as a reserve in years of loss.

It is now intended to use the reserve as a whole as a deduction in determining capital thus avoiding, as all accountants will agree,

a very substantial technical analysis of many years of accounts to gain the advantage in increased capital which the law held out.

By removing the accounting problems we increase the burden but that burden is offset by alleviation in other directions, such as special reference to the board of referees when there is unduly low capital or negative capital.

Tentative Amendment. To effect this proposal paragraph (b) of section 3 of the first schedule would be repealed and a rewording on the following lines substituted therefor:

(b) a reduction of the total amount of depreciation which has been taken into account in computing net income for income tax purposes in accordance with the Income War Tax Act, plus any accumulated depreciation reserves as at January 1, 1917, as recognized by the minister for purposes of the Income War Tax Act, and the total depletion reserve reflected on the books of the taxpayer.

14. Proposal. That the definition of capital be amended to enable the non-interest-bearing advances from parent to subsidiary corporations, which advances are of a permanent nature and in fact represent invested capital actually employed rather than borrowed capital, to rank as equity capital rather than debts of the subsidiary.

Explanation. The provision in the act which requires that borrowed money be deducted from capital values is considered to work a hardship in cases where the parent has advanced to the subsidiary capital which is called a loan or advance but is equivalent to investment capital in all respects. This amendment gives the board of referees the right to recognize the reality of the situation notwithstanding the name or label attached to the form of investment in the taxpayer company.

Tentative Amendment. This proposal would be effected by adding to paragraph (c) of section 3 of the first schedule a provision along the following lines:

and except the amount of indebtedness represented by a non-interest-bearing advance from a parent corporation to a subsidiary corporation which the minister is satisfied is of a permanent nature and is in fact invested capital actually employed in the business.

15. Proposal. That the requirement in the first schedule that dividends paid during the taxation year shall constitute a deduction from the capital employed at the commencement of the period to the extent of one-half the dividends, shall be amended to make it clear that this applies only to cash dividends and not to stock dividends.

Explanation. Since the present provision in the act is designed to reduce the opening capital by a portion of the cash dividends paid out during the year or fiscal period, this