

Hon. Mr. CAMPBELL: I think Senator Vien's point was that this new arrangement will not affect any transactions of sale or otherwise prior to 1949.

Mr. GAUSIE: That is right.

Hon. Mr. VIEN: Or any other claim with respect to taxes on depreciation arising out of operations which took place prior to 1949.

Mr. GAUSIE: Except to the extent that I have been discussing. If special depreciation was taken in, say, 1947 and the asset is sold in 1950, under the old law the 1947 assessment would have been reopened. That is being wiped out, and in place of it is the provision that that special depreciation, not the normal part of it but the part above normal, is deemed to have been allowed in 1949. So the part above normal would come into play here as deemed to have been allowed in 1949, and in the event of disposal of the asset would be subject to recapture in the year of disposal rather than in the high tax years during the war.

Hon. Mr. HAYDEN: That is very beneficial.

Mr. GAUSIE: Yes.

Hon. Mr. VIEN: Is it exclusively beneficial?

Hon. Mr. HAYDEN: Yes, on a quantum basis.

Mr. GAUSIE: Unless, Colonel, the rates in subsequent years are higher than they were in the war years, it will be beneficial.

Hon. Mr. HAYDEN: It would only apply to individuals, because the corporation taxes are the same for all corporations.

Hon. Mr. McLEAN: Back in 1942 and 1943 we were encouraged to build extensions to our plants in order to increase exports to the United States. Extra depreciation was allowed in such cases. Is that opened up again?

Mr. GAUSIE: No. That was under the War Exchange Conservation Act. We are talking about the special depreciation that was allowed by certificate of the War Contracts Depreciation Board, under the Income War Tax Act.

Subsection (2) was agreed to.

The CHAIRMAN: Now we come to subsection (3) which deals with the capital cost of property deemed lesser of actual cost. That is what the marginal note says.

Mr. GAUSIE: That has to do with a transaction not at arm's-length.

Hon. Mr. HAYDEN: What is meant by "deemed lesser of actual capital cost"?

The CHAIRMAN: In certain circumstances the capital cost to the taxpayer is deemed less than the actual cost.

Hon. Mr. HAYDEN: I understand that, but it does not mean anything to say that the capital cost of property is deemed lesser of actual capital cost. If it said "less than the actual capital cost" I could understand it.

Hon. Mr. HAYDEN: Some of these refinements are either modern or—

The CHAIRMAN: It looks like an error. We could ask Mr. Gausie to sum up the meaning of the section in a few words, and indicate the cases it covers.

Mr. GAUSIE: There are so many of these sections I must read it to make sure I have the right one. This covers the case where a property belonging to company A has been sold to company B, a related company before 1949. You see by clause 8 the rules for determining capital costs. In that case we say the capital cost to company B, which is a related company—

Hon. Mr. EULER: You mean a subsidiary company?

Mr. GAUSIE: Yes, or a commonly controlled company. It applies only in that case, and does not apply to strangers at all—only to where they are related taxpayers, or related companies who are taxpayers. The capital costs shall be