

Excess Profits Tax

thirty-eight, the minister on the advice of the board of referees is satisfied that because of the nature of the business, or because of other special circumstances, of the taxpayer, a capital standard of earning is an inappropriate standard to be applied to the said taxpayer, and that to apply such a standard would result in an unjustifiable hardship or would create extreme discrimination or jeopardize the continued existence of the business of the taxpayer, by imposing excessive taxation on him under this act, he may direct that the standard profits of such taxpayer shall be determined by the board of referees on such other basis as they think just. The standard profits shall be ascertained by the board of referees in its sole discretion at such an amount as they think just having regard to the standard profits of similar taxpayers engaged in the same or an analogous class of business.

10. Proposal. That the inventory-reserve provisions in the act be amended:

(a) to give the taxpayer the right to provide against a decline in inventory values having regard to a normal quantity of stock in trade as indicated by the quantity on hand during the standard period;

(b) to give the taxpayer the right to provide against a decline in inventory values either to the prices obtaining at the close of his 1939 period or to the prices obtaining during the month of August, 1939; and

(c) to provide that a taxpayer who has any unutilized inventory reserve on hand at the end of the year when this act terminates shall have only the year following the said year of termination in which to utilize such reserve against any possible price decline and must add any unutilized portion of such reserve existing at the beginning of the second year following the said year of termination to the profits assessable to tax in that second year.

Explanation. Proposals (a) and (b) give taxpayers whose fiscal periods happened to end subsequent to the outbreak of war, the right to reserve their prices in respect of quantities indicated in paragraph (a) above down to a figure which is substantially equal to the closing figure of competitors whose fiscal periods closed prior to the outbreak of war.

Proposal (c) notifies taxpayers who have an inventory reserve that the reserve on hand unless utilized because of a price decline before the end of the year following the repeal of this act, must be added to profits for tax purposes in the second year following repeal of this act.

Tentative Amendment. A rewording of paragraph (b) of subsection 1 and also of paragraph (c) of subsection 2 of section 6 of the act along the following lines would implement the above proposals:

S. 6, ss. 1 (b), ss. 2 (c). Such reasonable provision as a reserve against future deprecia-

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tion in inventory values as the minister in his discretion may allow having regard to a normal quantity of stock in trade necessary for the business as indicated by the quantity on hand during the standard period of the taxpayer: Provided that no such deduction shall be allowed which provides against a decline in inventory values below the inventory prices of goods on hand either at the end of the fiscal period of the taxpayer ending in 1939 or during the month of August, 1939;

And provided further that any reduction in such reserve shall be added to the profits of the year of reduction for purposes of taxation under this act, and any unutilized portion of such reserve on hand at the end of the year when this act ceases to apply to the taxpayer shall be available to the taxpayer to meet declines in inventory values during the immediately following year and if not exhausted by the end thereof, the unutilized portion on hand shall be added to the taxpayer's profits.

11. Proposal. That the exemption from the provisions of this act given to taxpayers with profits of five thousand dollars or less be amended by a proviso to the effect that in the case of taxpayers with profits above five thousand dollars the tax imposed by the act shall not reduce the profits below five thousand dollars.

Explanation. Under the present wording of section 7 (c) the taxpayer with profits of \$5,001 pays an excess profits tax, whereas the taxpayer with \$5,000 or less does not pay. The former taxpayer might be required to pay a very heavy tax whereas the latter taxpayer, even though he has increased his profits over the standard by almost as much, is not required to pay any tax. This proposal is designed to remove such discrimination.

Tentative Amendment. This proposal would be effected by adding a proviso along the following lines to paragraph (c) of section 7:

Provided that if the tax exigible under this act shall cause the profits of the taxpayer to be reduced below five thousand dollars in the taxation year, before providing for any payments to proprietors, joint owners, or shareholders, by way of salary, interest or otherwise, then to the extent that it would so reduce the profits below five thousand dollars, such tax shall not be payable.

12. Proposal. That the allowance for excess profits taxes and income taxes paid to Great Britain, other British dominions or dependencies, or to any foreign country allowing reciprocal deduction with respect to Canadian-paid taxes, be enlarged to provide a combined deduction of the British or foreign income and excess profits taxes from the combined liabilities to Canada for income and excess profits taxes.

Explanation. Double taxation must necessarily be alleviated. Reciprocity substantially exists among all countries to-day in allowing the taxes paid in foreign countries as a deduction from the domestic taxes. How-