

The CHAIRMAN: Just before we leave this subsection, what is the significance of the words "or should have been taken into account"?

Mr. GAVSIE: You will remember the practice of the Department was to accumulate 50 per cent of the normal depreciation in the year of loss, and that was not actually taken but was accumulated for depreciation purposes.

The paragraph was agreed to.

The CHAIRMAN: The next is paragraph (b), which refers to the case of a taxpayer who was resident in Newfoundland on the expiration of March 31, 1949. The same formula is made applicable to him, I take it.

Mr. GAVSIE: It is a slightly different formula. It is the capital cost minus the greater of the actual reserves that he has on the books or one-half the actual depreciation that he would have taken if he had been in Canada in those years.

Hon. Mr. HAYDEN: I am trying to find the reference in (b) at the top of page 9, which says "one-half of all amounts allowed to the taxpayer under subparagraph (ii) of paragraph (n) of subsection one of section six of the said act . . ."

Mr. GAVSIE: That is the Income War Tax Act.

Paragraph (b) was agreed to.

The CHAIRMAN: The next is paragraph (c). What is that?

Mr. GAVSIE: That is what I referred to a moment ago. Special depreciations taken in 1948 or 1949 are deemed to have been taken at the beginning of 1949, so as to come under the system. Subsection (2) does away with the old Income War Tax Act recapture, because it is taken care of by this paragraph (c).

The paragraph was agreed to.

The CHAIRMAN: Now we pass over to page 10, subsection (2), which provides that the second and third provisos to paragraph (n) of subsection one of section six of the Income War Tax Act are not applicable to sales made after the commencement of the 1949 taxation year.

Hon. Mr. VIEN: What are those provisos?

Mr. GAVSIE: Those were for the recapture of the special depreciation granted under the Income War Tax Act. Those two provisos contain a provision for going back to reassess. They are eliminated because paragraph (c) of section one takes care of that.

Hon. Mr. VIEN: But those provisos will not be applicable to questions arising from income taxes prior to the 1st of January 1949? All questions arising from income prior to the 1st of January 1949 will be dealt with under the law as existing then, is that correct?

Mr. GAVSIE: We go back to the case where a person got special depreciation during the war and sells the asset in 1950. If this subsection were not included the old law would be applicable to him, and on the sale the department would have to go back and look at the years in which he took special depreciation and say that because of the sale we are now going to re-write the depreciation that you took in those prior years and reduce it to normal depreciation and wipe out the special part of the depreciation that you took. That would have the effect of adding to his tax liability for those particular years in which he took special depreciation and he would get a reassessment for those previous years and have a liability for interest. That is in the Income War Tax Act. Subsection (2) says that those provisions are no longer applicable to sales made after 1949, and in lieu thereof section 8(1)(c) says that an extra depreciation is deemed to have been allowed at the very commencement of 1949, so that it comes into the new system.