

On section 8—transitional provisions *re* depreciation.

The CHAIRMAN: Subsection 1 of section 8 sets out that "where a taxpayer has acquired depreciable property before the commencement of the 1949 taxation year, the following rules are applicable for the purpose of section 20 of the Income Tax Act and regulations made under paragraph (a) of subsection 1 of section 11 of the Income Tax Act". Then it goes on, but I do not know whether you want me to read it or not.

Hon. Mr. HAYDEN: Could we have a typical example given to it by Dr. Eaton or Mr. Gavsie?

Mr. GAVSIE: What paragraph (a) says is that for the purposes of arriving at the 1949 cost you take the original cost—this is of an asset bought before 1949—and you take the original cost and you deduct from that the total amount of depreciation which has been allowed for capital in accordance with the previous practice; and any special or extra depreciation that was allowed, and one-half of the double depreciation, as well as any depreciation that was in existence in 1917—assuming that you are dealing with assets that were acquired before 1917. So, for arriving at the 1948 costs you take these original costs less all the depreciation that has been accumulated since the date of acquisition.

Hon. Mr. McLEAN: What about special depreciation that was set up for taxes paid on it? I do not mean the ordinary depreciations allowed, but special depreciations set up and taxes paid on it.

Mr. GAVSIE: You got the special depreciation which has the effect of reducing the amount of tax which you would otherwise pay. Under the old law there was provision that if you sold the asset in respect of which you got special depreciation your assessments would be re-opened and your depreciation that you took in those years would be reduced down to normal depreciation, which would have the effect of increasing your taxable income for those years and you would get a new assessment for those years and you would have to pay that plus the interest. The way the new system will operate is that this special depreciation which you received in the years prior to 1949, shall be deemed to have been allowed to the taxpayer in 1949. Therefore, under this new system, if the assets are subsequently sold, there will not be any reopening of the assessments prior to 1949, but they will be reflected in the same way as normal depreciation will be taken after 1949.

Hon. Mr. CAMPBELL: In other words, they are recaptured for tax purposes?

Mr. GAVSIE: That is right. Under the old system you re-opened the assessment under which you took it, and that was a liability for those years which immediately created in addition to the tax liability, a liability for interest.

Hon. Mr. HAYDEN: I understand your explanation, but would you look for a moment at section 8, paragraph (a) (ii) where it states "The total amount of depreciation for such of the said property as he had at the commencement of that year that, since the commencement of 1917, has been or should have been taken into account in accordance with the practice of the Department of National Revenue, in ascertaining the taxpayer's income for the purpose of the Income War Tax Act . . ." That is drawn on the basis that the person, on January 1, 1949, was the person who had already the property all through.

Mr. GAVSIE: It would only be applicable during the years he was the owner, and it would only go back to the year he acquired the asset.

Hon. Mr. HAYDEN: I know that is the intention, but I am not sure that the language is not confusing. However, so long as you say that is the intention it is all right.