

*Excess Profits Tax*

Tentative Amendment. A rewording of paragraph (i) of subsection 1 of section 2 of the act along the following lines would give effect to this proposal as well as complementing the amendments to paragraph (h) required by proposals (1) and (2) above:

2. 1 (i) "standard profits" means the average yearly profits derived by a taxpayer in the standard period, or deemed by the minister to have been derived by the taxpayer in the portions of his fiscal periods that are within the standard period, profits being deemed to accrue on an equal daily basis, in carrying on the same general class of business as the business producing the profits in the year of taxation, or the standard profits as determined in accordance with section 5 of this act:

Provided, however, that losses incurred by the taxpayer during the standard period shall not be deducted from the profits in the standard period but the years when such losses were incurred or deemed to have been incurred shall nevertheless be counted in determining the average yearly profits during the said standard period, and

Provided further that in no case shall a taxpayer's standard profits be deemed to be less than five thousand dollars.

5. Proposal. That the adjustment to standard profits by reference to any increase or decrease in depreciation allowances or other charges as provided by paragraph (d) of subsection 1 of section 4 be repealed.

Explanation. In view of the difficulty which has been encountered in attempting to define the sort of charges in respect of which adjustments in standard profits might properly be allowed it has been decided to repeal this provision entirely. Actually the adjustments possible under the present provisions of the act, if followed to their logical conclusion, would mean a complete equalization of the profits in the taxation period as compared with the standard profits. In the absence of the present provision extraordinary cases of hardship may be relieved by means of an order in council under the Consolidated Revenue and Audit Act.

6. Proposal. That the adjustment to standard profits by reference to increases or decreases in capital be amended to provide for an adjustment at a fixed rate of seven and one-half per centum on the capital change, with the proviso that if new capital to the extent of thirty-three and one-third per centum has been added since the standard period the taxpayer will have the option of being considered a new business.

Explanation. The reason for this changed method of giving credit for new capital, or reducing standard profits in the case of withdrawal of capital, is to simplify the procedure in determining tax liability, both from the point of view of the taxpayers and the government. It has been ascertained that taxpayers

are finding great difficulty in computing their proper tax under the present provision of the act, in cases where there have been material changes in the capital employed. The present method requires the computation of the average capital employed during the standard period in the case of all taxpayers who have made a change in their capital since the standard period. By altering the method of adjustment, delays and uncertainty are eliminated, and the amount of work in determining tax liability is greatly reduced.

A possible hardship is avoided by the proviso that if new capital to the extent of thirty-three and one-third per centum, or more, is added since the standard period the business may apply to the board of referees on the basis of being deemed a new business.

Tentative Amendment. A rewording of paragraph (b) of subsection 1 of section 4, along the following lines, would give effect to these changes:

4. 1 (b) (i) adjust the standard profits, by reference to any increase or decrease in capital contributed or withdrawn since the commencement of the last year or fiscal period of the taxpayer in the standard period, by adding to or deducting from the standard profits an amount equal to seven and one-half per centum of the said change in capital;

Provided that if new capital to the extent of thirty-three and one-third per centum of the capital employed at the commencement of the last year or fiscal period of the taxpayer in the standard period has been so contributed the taxpayer may apply under section five hereof to have his standard profits determined by the board of referees as if he were carrying on a new business.

(ii) adjust the standard profits by reference to any increase in capital employed during the standard period by adding to the profits of the standard years when such new capital was not employed an amount equal to seven and one-half per centum of the said new capital, and further, adjust the standard profits by reference to any decrease in capital employed during the standard period accompanied by a withdrawal of capital, and in the case of corporations, by a reduction of capital stock, by deducting from the standard years when the withdrawn capital was not present, an amount equal to seven and one-half per centum of the said withdrawn capital.

7. Further Explanation. In addition to the above amendment, the proposal outlined in (6) above would require to be implemented by a rewording of the provision in section 5 of the act whereby new businesses may apply to the board of referees. This rewording, which in the amended statute would be called subsection 2 of section 5 would be on the following lines:

Tentative Amendment.

s. 5, ss (2). If on the application of a taxpayer the minister is satisfied that the business of the taxpayer was not in operation prior to January first, one thousand nine hundred and