

(7) That the national defence tax be applicable to the income of 1940 and all subsequent years except that in respect of the income of the year 1940 the tax shall be imposed only on one-half of the income if the income for the whole year exceeds the relevant amount specified in resolution No. 18(1);

(8) That the income of the following persons shall not, except as in this resolution provided, be liable to the national defence tax

(a) incorporated companies;

(b) persons and institutions mentioned in paragraphs (a) to (i) inclusive and in paragraphs (p) and (q) of section four of the Income War Tax Act;

(c) members of the Canadian naval, military and air forces shall be exempt from tax while such members are on active service beyond Canada or are on active service in Canada and whose duties are of such a character as are required normally to be performed afloat or in air craft, but only to the extent of their service pay and allowances.

19. That the resolutions numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 15, 16, 17 and 18 hereof shall be applicable to the income of the 1940 taxation period and fiscal periods ending therein and of all subsequent periods.

20. That the resolution numbered 10 hereof be applicable to payments made after the 24th June, 1940.

#### EXCESS PROFITS TAX ACT

Resolved, that it is expedient to reenact the Excess Profits Tax Act and to provide:

1. That the option of using rates "A" be deleted, and that the excess profits be the difference between the profits of the year of taxation and the profits of the standard or base period.

2. That the standard profits be determined with reference to the average profits of the standard or base period being the years, 1936, 1937, 1938 and 1939, except as provided in resolution 5 hereof.

3. That the rate of tax on the excess profits be increased from fifty per centum to seventy-five per centum.

4. That on all profits a minimum tax be paid by every taxpayer under the Excess Profits Tax Act, such minimum to be a tax of twelve per centum on the total profits of the business before deducting income tax, and to be payable in all cases unless the tax provided in resolution 3 hereof is greater than the said minimum tax, in which case only the greater shall be paid.

5. That a board of referees (hereinafter called the board) be established with discretionary power, subject to the approval of the Minister of National Revenue (hereinafter called the minister), to ascertain a standard of profits for new businesses or businesses depressed during the standard period subject to the following:

(a) in the case of a business depressed during the standard period the minister may direct that the board ascertain a standard of profits at an amount which they think just, being a return of not less than five nor more than ten per centum of the capital employed;

(b) in the case of a new business other than that of the operation of a gold mine or an oil well, if it has been commenced since January 1st, 1938, the minister may direct that the board ascertain a standard of profits at an amount which they think just, provided that the said amount represents a rate of return

on the capital employed by the taxpayer equal to the average rate of return of taxpayers in similar circumstances engaged in the same or analogous classes of business;

(c) in the case of a taxpayer engaged in the operation of a gold mine or an oil well which has come into production since January 1st, 1938, the minister may direct that the board ascertain a standard of profits at such an amount which they think just on the basis of a presumed volume of production during the standard period equal to the volume of production in the taxation year and a presumed selling price for the product during the standard period equal to the average selling price of the said product during the standard period.

6. That the minister may adjust the standard profits so as to ensure the comparison of like with like in the following cases:

(a) where the accounting period in the taxation year is longer or shorter than the standard accounting period;

(b) where the capital employed in the taxation year has been substantially increased or decreased over that of the standard period by the contribution or withdrawal of capital;

(c) in the case of gold mines and oil wells where the volume of production in the taxation year has been substantially increased or decreased over that of the standard period.

7. That there be exempted from the tax imposed under the said act:

(a) small businesses where the profits before any salary or drawings by proprietors or shareholders do not exceed five thousand dollars per annum;

(b) personal corporations which act solely as investment-holding agencies of individual Canadian taxpayers;

(c) non-resident-owned investment corporations.

8. That sole proprietorships or partnerships be allowed to claim as a deduction such reasonable amount for salaries paid to the proprietor, or partners as the minister may determine, not to exceed five thousand dollars per year for each.

9. That in the case of a taxpayer who acquired a business as a going concern since January 1st, 1938, the minister may direct that the standard profits of the predecessor may be added to those of the taxpayer if the minister is satisfied that the trade or business of the predecessor and the taxpayer is not substantially different.

10. That the definition of average profits during the standard period be revised to provide that only the profits of the standard period shall be taken into account when determining the average of the years during the standard period when the taxpayer was in business.

11. That, in order to prevent evasion, power be given the minister to:

(a) disallow the deduction of disbursements by the taxpayer which the minister in his discretion may determine to be in excess of what is reasonable and normal for the business;

(b) assess without regard to specious transactions or reorganizations which the treasury board has found to have no reasonable business purpose other than that of avoidance or minimization of taxation.

12. That capital be redefined having regard to the cost price of the assets presently employed by the taxpayer less depreciation or depletion thereof, and deducting borrowed money and debts, with a proviso that non-productive