

There is an additional subsection, subsection 2 of section 22, which permits life insurance companies to claim certain reserves in respect of miscellaneous business other than life insurance business, because those reserves in relation to life insurance business are covered in the act. The provision I have just referred to is of general application to more general revenues.

Section 22(3) adds a new subsection (6c). It says that the reserves I have described may not be deducted in respect of proceeds from the disposition of oil and gas rights where the taxpayer ceases to be a resident of Canada and becomes exempt from tax or is a non-resident who ceases to carry on business in Canada. It is simply a case of closing some of the areas that existed for escaping payment of tax because the proceeds for the sale of rights may have been payable by instalments, and by the time the instalment came due, if you were on a cash basis in making your return, you might be a non-resident who had left Canada. For that reason it was decided to apply the method where you must bring the proceeds into income right away, but then, you are entitled to set up a reserve against the receivables that will come in in subsequent years.

A special mortgage reserve is provided in clause 24, at pages 38 to 40 of the old bill and pages 42 to 44 of the new bill. This reduces the section 85G reserves for taxpayers whose business includes lending money on the security of mortgages et cetera from 3 per cent to 1½ per cent. It also applies to banks, but the banks have been dealt with by the minister, as he has authority to do under section 11(4) of the present act.

The section also provides, where the reserve that has been built up is no greater than it would be on the new basis of reserve, for getting down to the lower amount of reserve over a ten-year period. The details of that will be found by reading the particular sections to which I have referred, and I do not see it is necessary to go into detail on it. I may say that there is a transitional provision, to which I have referred, for the gradual reduction of any reserve that is in excess of the amount permitted under the new rules.

Next we come to the cost of borrowed money. This is clause 24(1), to be found at pages 40 to 44 of the old bill and pages 44 to 48 of the new bill. It adds a new section 85J. It permits a taxpayer to capitalize the cost of borrowed money to acquire depreciable property, or for exploration, prospecting or

development. It concerns the present practice and is a relief for taxpayers who might not have the income against which to deduct the interest currently. It permits such interest in this way to be carried over—that is by capitalization—until there is income to take care of such interest, and enables the deduction of such interest to be done in a future year. It is not clear from the bill—although we can deal with this in committee—whether an election that you have to make to capitalize interest means that you must capitalize all the interest or whether you can capitalize part and deduct part. It is designed primarily for new companies or new operations where large amounts of money have been borrowed and interest becomes payable before the enterprise is in a profitable position.

Section 85J(1) covers the case where the taxpayer has borrowed money to acquire depreciable property. He can elect for a year in respect of which the property is acquired and for three immediately preceding years that a specified amount of interest shall not be deducted in computing income but shall be added to the capital cost of depreciable property acquired with the borrowed money. This is helpful when borrowing is up to three years earlier than it is spent on the acquisition of depreciable property.

Under section 85J(2), where the borrowing is for the purposes of exploration, prospecting and development, the borrower may elect in the year in which the money is spent and for three immediately preceding years that a specified amount of interest shall be added to the expenses of such exploration financed by the borrowed money, and in that way capitalized. That this is relieving and beneficial to some extent has been recognized, but now it is given force of law.

We are now getting close to the end. I come to the question of rents and royalties, which deals with withholding tax and extends the scope of withholding tax, which is clause 29, to be found at pages 53 to 55 of the old bill and pages 57 to 59 of the new bill. It amends section 106(1)(d) by repealing it and substituting a new paragraph (d). The present section imposes a 15 per cent withholding tax on rents and royalties or a similar payment from sources in Canada to non-residents. The intention is to clarify and enlarge the existing provisions.

The existing law refers to “similar payment to rents, royalties.” The connotation is similar payments in relation to rents and royalties and the question what this includes has