

The CHAIRMAN: That subsection has the same effect, I think, as the one we discussed previously.

Mr. GAUSIE: That is right.

Section 8 (4) was agreed to.

The CHAIRMAN: Subsection 5 of section 8 reads "reference in this section to depreciation shall be deemed to include a reference to allowance in respect of depreciable property of a taxpayer under paragraph (a) of subsection (1) of section 5 of the Income War Tax Act".

Hon. Mr. CAMPBELL: Is that the section which deals with payments made by an employer to an employee?

Hon. Mr. HAYDEN: No, we are not that far yet.

Mr. GAUSIE: That is the next section.

Hon. Mr. HAYDEN: What is the objection to that subsection?

The CHAIRMAN: Section 5(1)(a) of the Income War Tax Act deals with depletion and relates to income derived from mining, oil and gas wells and timber limits where an allowance is made for the exhaustion of the mines, wells and timber limits. This provides that depreciation as used in this section shall include depreciation as granted under 5(1)(a) of the Income War Tax Act.

Hon. Mr. HAYDEN: That means, Mr. Chairman, that when I come to ascertain the cost at January 1, 1949, that I not only deduct from the capital cost of the property the depreciation that may have been taken, but I also have to deduct the depletion allowance?

Mr. GAUSIE: Where depletion was on a cost basis. There were certain rules of depreciation where you took the cost of the property and divided the number of units of, say, a stone quarry, where you had the so-called bedded deposit. You said that that property cost you \$100,000 and you were going to get X cubic feet of stone out of it. The depletion allowance was based on the units produced. You took the units to be produced, divided them into the cost of the property, and that was your depletion allowance.

Hon. Mr. HAYDEN: And you are going to deduct from the ascertainment of capital cost on January 1, 1949, the amount of any depletion that has been taken.

Mr. GAUSIE: That \$100,000 may have been recovered in part by taking out the stone, and therefore we want to find out how much of that \$100,000 is left to be recovered, so that the amounts that were allowed under 5(1)(a) would be deducted in arriving at the 1948 cost.

Hon. Mr. HAYDEN: I understand the formula, but I am questioning the policy of deducting depletion.

Dr. EATON: Under the Income War Tax Act there were certain allowances as a deduction in order to enable the taxpayer to recover his costs. One of these was depreciation, what was expended for machinery, equipment and buildings. The other was what you might call the inventory of your ore body. The allowances were granted not only under section 6 of the Income War Tax Act for depreciation but under section 5(a) to recover cost in respect of a wasting asset.

Hon. Mr. HAYDEN: I can understand the depreciation that related to the asset, but depreciation is the allowance you make out of what would otherwise be taxable income for the year because of the fact that by taking out that material you are exhausting the mine.

Dr. EATON: Well; they are both the amortization of the capital cost.

Hon. Mr. HAYDEN: But the depreciation is amortizing the capital cost.