

trails for the protection of standing timber against fire, insects, and disease, or (n) property that was acquired for a motion picture drive-in theater.

Class 11 (35 percent) : Property not included in any other class that is an electrical advertising sign owned by the manufacturer thereof and used to earn rental income.

Class 12 (100 percent) : Property not included in any other class that is (a) a book that is part of a lending library, (b) chinaware, cutlery, or other tableware, (c) a kitchen utensil costing less than \$100, (d) a die, jig, pattern, mould, or last, (e) a medical or dental instrument costing less than \$100, (f) a mine shaft, main haulage way or similar underground work, sunk or constructed after the mine came into production, (g) linen, (h) a tool costing less than \$100, (i) a uniform, (j) the cutting or shaping part of a machine, (k) apparel or costume used for the purpose of earning rental income therefrom, and (l) video tape.

Class 16 (40 percent) : Property that is (a) an aircraft; (b) furniture, fittings or equipment attached to an aircraft; or (c) a spare part for a property included in this class.

Class 17 (8 percent) : Property that would otherwise be included in another class, that is a telephone or telegraph system or a part thereof, except radio receiving and transmission equipment and property included in class 10.

A taxpayer may elect to include in class 1 all properties which would otherwise be included in another class or, a taxpayer whose chief depreciable properties are in class 2, 4, or 17, may elect that any other property from the same business be included in class 2, 4, or 17.

Types of buildings or equipment not subject to depreciation

None.

Accelerated depreciation

A special depreciation allowance to encourage reequipment and modernization was part of the 1961 budget proposals to encourage and assist Canadian business to become more competitive in markets abroad and at home. The purpose of the allowance is to help business undertake new capital installations including machinery, equipment and buildings.

The reequipment and modernization allowance takes the form of a 50-percent increase in the rates of capital cost allowance for the year in which a new asset is acquired. This additional allowance will apply to new assets acquired in the period June 21, 1961, to March 31, 1963. Since this allowance is intended to encourage reequipment and modernization it applies only to those capital expenditures which are in excess of normal or ordinary capital expenditures. The regulations provide that the expenditures which qualify for the additional allowance are those made in the taxation year which exceed a certain base amount. The base amount is the aggregate of the amounts spent for depreciable property acquired in the last complete taxation year of the taxpayer ending before June 21, 1961, or the average for the last 3 years if the average is smaller. In order to guard against existing operations being split up into new ones for tax savings purposes, there are provisions for the carryover of base expenditures in the case of certain incorporations and reorganizations.

Nearly all assets depreciable on the diminishing balance basis will qualify for the additional allowance. Property which is already eligible for accelerated depreciation under a certificate issued by the Minister of Defense Production, and property which is already eligible for a 100-percent rate of depreciation does not qualify for the new allowance. In addition, secondhand assets are not eligible nor is property acquired for use entirely outside Canada.

The amount of capital expenditures qualifying for the allowance is the excess of the aggregate expenditures over the base amount. The excess is not computed on the basis of expenditures for various classes of assets under the Canadian class depreciation system. Thus, qualifying expenditures might all be for automobiles, while the base period expenditures were for buildings. If the taxpayer has acquired property of more than one class, he may allocate the qualifying expenditures in any manner he desires to the various classes of acquisition.

The following example illustrates the operation of this allowance:

Computation of base amount: Assume that capital expenditures for depreciable property for 1958, 1959, and 1960 (the last complete taxation year ending before June 21, 1961) were \$60,000, \$50,000, and \$40,000, respectively.