

quisition or the allowance may be apportioned in any manner over these 3 years. The additional allowance reduces the undepreciated cost of the asset and thus also reduces the normal depreciation allowance in the following years. Both this allowance and the re-equipment and modernization allowance discussed above may be claimed with respect to the same property. Special provisions are also in effect for accelerated writeoff of certain coal property, fishing vessels, and defense facilities.

Incentive allowances

None.

Adjustment for price level changes

None.

Treatment of gains and losses on sale of depreciable property

Under the Canadian class system, gains and losses as such are not computed upon the sale of depreciable property. Proceeds up to the amount of the original cost of the assets sold from a class during a taxable year are deducted from the undepreciated cost of the remaining assets in the class. Any proceeds which exceed the original cost of the assets sold constitute a capital gain not subject to income tax. Under "recapture" provisions, proceeds applied in reduction of the undepreciated cost which exceed the remaining undepreciated cost of the class are required to be included in ordinary income and are taxed at ordinary tax rates. Any undepreciated cost remaining after a taxpayer has disposed of all property in a class and has no property of that class at the end of a taxable year, may be deducted as a "terminal loss" from ordinary income. In general, the operation of the class system results in (1) the deferral of recognition of gain on the sale of depreciable property along with a reduction of future depreciation deductions, (2) deferral of losses on sale of depreciable property with an increase in future depreciation deductions, (3) ultimate recognition as ordinary income of gains on sale of depreciable property to the extent of depreciation previously claimed and ultimate recognition as ordinary deductions of losses on sale of depreciable property.

The following examples illustrate the operation of the class system with respect to disposals of property of a particular class:

	1	2	3	4	5
Original cost of assets in class.....	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Accumulated depreciation.....	75,000	75,000	75,000	40,000	50,000
Undepreciated cost before disposition.....	25,000	25,000	25,000	60,000	50,000
Dispositions:					
Original cost.....	35,000	35,000	35,000	20,000	100,000
Proceeds.....	20,000	30,000	40,000	50,000	40,000
Proceeds deducted from undepreciated cost.....	20,000	25,000	25,000	20,000	40,000
Capital gain.....	0	0	5,000	30,000	0
Ordinary income under "recapture" provisions.....	0	5,000	10,000	0	0
Ordinary loss under "terminal loss" provisions.....	0	0	0	0	10,000
Undepreciated cost remaining.....	5,000	0	0	40,000	0

Relationship of book and tax depreciation

Depreciation is allowed for tax purposes without regard to the amount of depreciation recorded on the books. For the years 1949-53, depreciation could be deducted for tax purposes only to the extent that it had been recorded on the books. This provision was repealed effective for 1954 and subsequent years.

Provisions of prior law

In general, depreciation was deferred on assets purchased after April 10, 1951, and before January 1, 1953, unless the Minister of Trade and Commerce had issued a certificate of eligibility for depreciation. The original term of deferment was 4 years. However, this restriction was lifted and beginning in 1953 depreciation was allowed to commence on such assets.