Regulations covering capital cost allowances (depreciation) permit taxpayers to deduct over a period of years the actual cost of all depreciable property. The yearly deductions of normal capital cost allowances are computed on the diminishing balance principle. (Taxpayers engaged in farming and fishing may choose between this and the straight-line method.) Published regulations establish a number of classes of property and maximum rates. There is provision for recapture of any amount allowed in excess of the ultimate net capital cost of any asset.

Accelerated depreciation is available to taxpayers in certain circumstances and for a limited period of time. Straight-line depreciation at a rate not exceeding 50 p.c. is granted in respect of new machinery and equipment that would otherwise fall in Class 8 of the Income Tax Regulations acquired in the period June 14, 1963 to Dec. 31, 1966 for use in manufacturing or processing businesses by individuals resident in Canada or by companies resident in Canada that have a degree of Canadian ownership. A company that has a degree of Canadian ownership is one which throughout the 60-day period immediately preceding the year in question complies with the following conditions: (1) it was resident in Canada; (2) not less than 25 p.c. of its directors were residents of Canada; and (3) either (*a*) not less than 25 p.c. of its shares having full voting rights and shares representing not less than 25 p.c. of its equity share capital were owned by individuals resident in Canada or corporations controlled in Canada, or (*b*) a class or classes of its shares having full voting rights were listed on a Canadian stock exchange and no one non-resident person and no one corporation that did not comply with (*a*) above owned more than 75 p.c. of the shares having full voting rights, and equity shares of the corporation representing not less than 50 p.c. of the paid-up capital of the corporation were listed on a Canadian stock exchange and no one non-resident person or no one corporation that did not comply with (*a*) above owned equity shares representing more than 75 p.c. of its equity share capital. For new manufacturing or processing businesses in designated areas of slower growth there is no requirement that they have a degree of Canadian ownership to qualify for this 50-p.c. straight-line depreciation. Moreover, the period during which their expenditures on eligible assets qualify for this accelerated write-off extends from Dec. 5, 1963 to Mar. 31, 1967. Depreciation at the accelerated rate of 20 p.c. on a straight-line basis is also available in respect of new buildings acquired in designated areas of slower growth in the period commencing on Dec. 5, 1963 and ending on Mar. 31, 1967. Finally, accelerated depreciation is allowed in respect of new buildings or other structures for grain storage acquired in the period May 1, 1965 to Dec. 31, 1966 (full write-off in four years) and in respect of property acquired in the period Apr. 27, 1965 to Dec. 31, 1966 to prevent water pollution (full write-off in two years).

Expenditures on scientific research by corporations qualify for special tax treatment. Generally speaking, all expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred. In addition, corporations are permitted to deduct, in computing income for tax purposes, 150 p.c. of their increased expenditures on scientific research in Canada. This concession is available until the end of the 1966 taxation year.

Taxpayers operating mines, oil wells and gas wells are allowed a depletion allowance, usually computed as a percentage of profits derived from mineral, oil or gas production, which continues as long as the mine or well is in operation. This allowance is in addition to capital cost allowances on buildings, machinery and similar depreciable assets used by the taxpayer and the deduction of his exploration and drilling expenses. Taxpayers operating timber limits receive an annual allowance sometimes called a depletion allowance. This is a rateable proportion of the amount invested in the limit and is based on the amount of timber cut in the year. When the amount invested in the limit has been recovered, no further allowance is given.

In computing taxable income, corporations may deduct dividends received from other Canadian taxpaying corporations and also from foreign corporations in which the Canadian corporation has at least 25 p.c. stock ownership. Business losses may be carried back one