



October 23rd, 1989.

BY HAND

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Mr. Brian J. Bryson,
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Current Amendments and
Regulations Division,
Revenue Canada Taxation,
123 Slater Street, 10th Fl.,
MacDonald Building,
Ottawa, Ontario.

DWT
Lab *NRW*

**Re: Subsection 163(1) Penalty
Your File 1-3242**

This letter is in reply to your letter dated September 12, 1989, concerning the computation of the subsection 163(1) penalty.

As indicated in your letter, the policy underlying subsection 163(1) is that the penalty imposed under that provision be computed on the gross unreported amount, i.e. before applying any deduction.

I have some difficulty understanding the argument that the wording of subsection 163(1) suggests that the penalty should be computed on a net basis. Bearing in mind that the words "an amount required to be included in computing his income" used in subsection 163(1) are also found in the preamble of subsections 6(1) and 12(1), the overall scheme of the Act is as follows: one includes gross amounts, such as those referred to in article 12, in his income as income from the relevant source, then deducts, in computing the income from that source, the deductions allowed by other sections such as section 18.

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The Act contemplates that the computation of the income from a source is done by including some amounts (such as those specifically referred to in section 6) and by deducting other amounts (those referred to in section 8). One should not confuse amounts included in the computation with the amount of the net income resulting from the computation.



R.A. Short
General Director
Tax Policy and
Legislation Branch

Brian

*Call Jacques Sasseville
if you have any
questions*



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