

Section 8 is a transitional section, setting out certain rules with respect to the initial portion of the assets, and the process of arriving at values at which one will start to depreciate. As has no doubt been indicated by Dr. Eaton and Mr. Gavsie, the provision of the new system will not be retroactive. Whatever depreciation has been taken, on whatever basis, up to the present time, will prevail. There is to be a transitional measure in the regulations, I am informed, which permits the taxpayer to take the dollar amount of depreciation in the initial year of 1949 on either the old straight line basis which he has been using, or on the basis on which it would be calculated under the proposed new system.

I am personally convinced, after some considerable examination of this new basis, that it is more beneficial to the taxpayer—certainly more beneficial to the honest taxpayer. It prevents some abuses which have existed in connection with depreciation. I am sure the members of this committee realize that the greatest opportunity for playing about with one's income tax is in his depreciation account and inventory account. I think that this new basis provides a more sound and fair basis to establish depreciation.

Mr. Stuart, the member for Charlotte, put his finger on a point which illustrates that the new basis is beneficial to the small taxpayer. He asked the question, "What about the fisherman who instead of buying a Diesel engine for his boat, buys an old automobile engine and adapts it to operate his fishing boat; he runs his boat so hard that he wears out three such motors before he can write them off on the straight line basis of depreciation? Is he helped by the old system?" I replied that under the old system he would not be helped, but under the new system he would.

I am now answering Senator Lambert's question, if I may, as to whether if we were to allow further time for consideration by the business community, would we get different representations than we have already received, the overwhelming majority of which has been in favour of the new basis.

So far as the farm group is concerned, we have had no representation from any agricultural organization of the community. For the first time in the house the other night, various members, some of them farmers themselves, expressed the view that this arrangement would be less advantageous to the farmer than the old system. Personally, I do not share that view, that is, assuming the farmer keeps the proper books and records. As we know, the small farmer usually keeps his record in the back of an exercise book, and it is not very complete. He has become accustomed to the old line method of allowing depreciation. There is perhaps an advantage, where he has under-depreciated a piece of equipment, to get benefit under the new system; nevertheless, if he likes the old system, why should we force him to adopt the new? The revenue from the farming section of the community is not great in any case. For that reason, I introduced an amendment to that section, which is the recapture provision—the pooling system of assets—that it should not apply to farmers and fishermen. I included fishermen because, under the income tax act, special treatment is accorded to them by allowing them to average profits over five years.

That is a general statement as to the reasoning which led up to this proposed change, and the circumstance which caused the government to introduce it. As I say, the reason I announced it last spring was that I was pretty sure at that time that the income tax bill would not be through before the end of March, and there would be ample opportunity for those interested in it to study it. I may say that the question of depreciation is, in its application, very complex. Its principle is extremely simple—just like A, B, C. You are entitled to deduct from your gross income an amount to represent what is considered a return of capital out of annual income. That is all there is to it. It is done in a variety of accounting ways, but in practice the underlying principle is that you would not tax as income part of the