

Hon. Mr. Campbell: Yes. I shall have something to say about the rates later. Then suppose he sells part of the asset for \$100,000. He then reduces the value of his asset for depreciation purposes by \$100,000. He does not pay any taxes on the \$100,000. The remainder of his asset is worth \$400,000, but assume that in the next few months he sells that remainder for \$500,000. He will then have made a profit of \$100,000, which must be included in his return for purposes of taxation.

Hon. Mr. Euler: Would the whole \$100,000 be subject to taxation?

Hon. Mr. Campbell: The whole \$100,000 would in that case be subject to taxation.

Hon. Mr. Davies: Is that not something new?

Hon. Mr. Campbell: Yes, it is.

Hon. Mr. Davies: A tax on capital profits.

Hon. Mr. Campbell: It is not a tax on capital profits, because the owner is not obliged to take depreciation.

The honourable gentleman from Inkerman (Hon. Mr. Hugessen) asked a question about rates. The rates will be charged on the diminishing or reducing balance basis of the assets from time to time in the taxpayer's possession. The rate in each case will be flexible, from perhaps 1 to 20 or 30 per cent, within a very wide range. The taxpayer may decide to take depreciation at the highest rate in a year of good profits, or he may write his own rate into his return. Suppose, for sake of illustration, that he writes off an asset in five years of good profits. If he carries on operations after that he will not be entitled to any further depreciation on that asset which has been written down to no value, but if he sells the asset after that he must account for it. If he ceases to carry on business and sells the asset at a profit, he must pay a tax on that profit.

Hon. Mr. Roebuck: If the asset has an appreciated value at the time of sale does he pay tax on the amount of appreciation as well as on the original value?

Hon. Mr. Campbell: He never pays a tax on anything higher than the original cost.

Hon. Mr. Haig: He pays the tax on the original base price as of January 1, 1949.

Hon. Mr. Campbell: That is right.

Hon. Mr. Haig: That is the figure that applies.

Hon. Mr. Campbell: In other words, he never pays a tax on anything in respect of which he has not received a tax credit by way of depreciation.

Hon. Mr. Haig: That is correct.

May I just ask another question by way of illustration? Suppose a man buys a frame house for \$10,000 for rental purposes, on which he is allowed 5 per cent—if it were brick he would be allowed 2½ per cent—and by January 1 of this year depreciation had reduced the value of the house to \$5,000 for tax purposes, as I understand it, when he sells the house he does not have to pay income tax on the excess of sale value over the amount to which it has been depreciated. Is that correct?

Hon. Mr. Campbell: That is correct as it applies to a house where the owner has not taken anything other than ordinary depreciation.

Hon. Mr. Moraud: After 1949.

Hon. Mr. Campbell: There is a further provision on that point—

Hon. Mr. Haig: Is one permitted to take more than 5 per cent?

Hon. Mr. Campbell: Yes.

Hon. Mr. Haig: Can one take whatever he likes?

Hon. Mr. Campbell: Let me complete my answer to my friend's question. So far as the depreciation from January 1, 1949 is concerned, there will be prescribed a range within which depreciation can be taken on particular classes of property.

Hon. Mr. Haig: Where would I get that information?

Hon. Mr. Campbell: That will be under the regulations to be passed under this bill, which I understand will be available within a week or ten days. In other words, the regulations will make the Act more flexible, so that a taxpayer can decide whether he will take 5 per cent, 10 per cent, or whatever the range permits him to take. Honourable senators will appreciate the advantage effected by the provisions to which I have referred.

Under the present law a taxpayer, even when he suffers a loss, must take 50 per cent of his normal depreciation on property in any taxation year, and in respect of which he never has had a tax credit. Under the new regulation he may in a loss year make an election not to take any depreciation, or, for some other reason he may elect to take a very low rate of depreciation. The rate allowed is on the diminishing balance from time to time.

Hon. Mr. Fogo: Would the honourable member indicate what would happen in the