

Hon. Mr. LAMBERT: May I suggest that the minister deal with the proposal that sections 7 and 8 be dropped from the bill at this time.

Hon. Mr. NICOL: Before the Minister speaks I wish to point out that I made a motion earlier that sections 7 and 8 be deleted from the bill. From the explanations that we have received this morning I understood that the deletion of these two sections would not change the general economy of the bill, which is a bill to amend the Income Tax Act. When this meeting began we had before us only a copy of the bill as read the first time in the House of Commons, but now a distribution has been made of the bill as read the third time. The explanatory note opposite clause 7, on page 5 of the bill, says that the new section 20 carries out the new scheme for depreciation which is being adopted by regulation, and the note opposite clause 8, on page 8, says that the provisions in this clause are transitional to establish the initial position of taxpayers for the application of the new principles of depreciation. I submit that these new sections 7 and 8 could be deleted without making any change in the general economy of the bill.

Hon. DOUGLAS C. ABBOTT, Minister of Finance: Mr. Chairman, first I apologize for my delay in getting here, but I had to attend another meeting. I will not attempt to discuss the point raised by Senator Nicol's motion that sections 7 and 8 be deleted, as it would perhaps be better if I addressed myself more to the substance of the new scheme and the suggestion that further time be allowed for consideration of it. First I want to point out that the fundamental principle is found in section 11 (1) which makes it possible to allow depreciation. Depreciation is a concession which is made to the taxpayer. The tax gatherer might say to the taxpayer, "You cannot take depreciation at all but must pay the tax on your gross income." Depreciation was allowed under the Income War Tax Act, but the rates of depreciation and the method by which it could be taken were left to the discretion of the minister. The committee realizes that the minister could say, in effect: "You cannot take any depreciation at all, or you can take it on the straight-line method, or on the diminishing balance method or on any other method you like." In our amended act which we brought in last year we eliminated as many as possible of these purely ministerial discretions and provided that such matters as depreciation would be determined by regulation.

Last March, when I presented the budget originally, I announced that it was proposed to introduce a new basis of allowing depreciation. I stress again that the allowance of depreciation was discretionary with the government of the day. It is not mandatory but is a concession to the taxpayer. It is reasonable to allow it and it has always been allowed, but I think the basis on which it is allowed must be a matter for determination by discretion or some other method. The new basis has been, I know, extensively studied by groups such as accountants' associations, bar associations, the Canadian Manufacturers' Association and others interested, and we have received many representations and had numerous discussions about it. I think it also fair to say that we have had no serious criticism of the proposed measure from the organized representatives of business. That is fair, is it not, Dr. Eaton?

Dr. EATON: That is quite fair.

Hon. Mr. ABBOTT: I was talking to Mr. George Currie, an old friend of mine, last night, and he said he was quite satisfied with the new proposal.

I come now to the two sections of the bill with which the committee is concerned. Section 7, which enacts section 20 and subsection 1 gives statutory recognition to what we loosely refer to as the recapture principle. The remaining subsections are largely definitions.