ments to persons as shareholders, outlays or options to acquire depreciable property, the cost of interest in a trust or partnership, payments or cancellation or repayment of debt, or any outlay for the purchase of shares of a company.

Capital property is defined to exclude eligible capital expenditures as in section 54(b). This is just the definition of eligible capital expenditures. Depreciation of eligible capital expenditures is another matter. Here we get into something called CEC, or cumulative eligible capital. Cumulative eligible capital is defined to be 50 per cent of eligible capital expenditure incurred, minus cumulative eligible capital previously claimed as a deduction and cumulative eligible capital recovered as proceeds of disposition. This is to be found in section 14(5)(a). Taxpayers may deduct 10 per cent of their cumulative eligible capital, or CEC, on hand at the end of a taxation year.

The operation of the culmulative eligible capital pool is similar to that of a particular class of assets under the capital cost allowance system. CEC is on a pool basis by business so that the recapture and terminal loss provisions operate on a business basis. However, the 10 per cent deduction of CEC is provided by statute as opposed to regulation. When a taxpayer ceases to carry on a business there are terminal loss provisions for his CEC. However, if a spouse or controlled corporation continues the business, the terminal loss is denied and the CEC is assumed by the spouse or corporation. If the taxpayer sells the business after 1971 and part of the proceeds would be ECE to the purchaser, one-half of such part of the proceeds minus the CEC applicable to the business is included in the vendor's income.

Transitional rules reduce the 50 per cent taxation of proceeds of ECE to 20 per cent in 1972. This 20 per cent rate is increased by 2.5 percentage points per year until 1984, when the 50 per cent level is reached. Transitional rules also prevent the ECE of a non-arm's length purchaser to exceed the taxable proceeds of the vendor.

What about the analysis? In completing his income tax return the taxpayer must attempt to discover in this maze of new rulings whether he is in fact subject to the rules regarding eligible capital expenditures and attempt to discover how much cumulative eligible capital he has on hand at the end of a taxation year, whereupon he may deduct 10 per cent; and if he has sold the business he must attempt to discover whether part of the proceeds would be eligible capital expenditures to the purchaser and work out his taxation rates based on the formula contained in section 14(1).

In his summary of 1971 tax reform legislation the Minister of Finance says the government, in the first year of the new system based on 1968 incomes, will experience a $25 million loss of revenue due to the new deduction for "nothings" and for interest on money borrowed to buy shares. It is difficult to imagine how much revenue business will lose in its attempt to plow through the Minister of Finance's new rulings to find the deductions it has been promised under the new system. The Minister of Finance has made the new rulings in this area so complicated that is hardly worth the effort. Although this is another good example of the finance minister's determination to cause total confusion, one wonders why he has even made the effort since it results in a revenue loss for the government.

• (3:20 p.m.)

In its August 20 brief on tax reform, the Canadian Bar Association recommended that the minister at least tighten up the bill with regard to the placement of provisions concerning goodwill and "nothings". The brief goes on to say:

—also the new terminology is bound to confuse when one considers that "eligible capital property" is excluded from the definition of both "capital property" and "depreciable capital property". We think a change of terminology is essential.

One would think that the Minister of Finance with all his intricate new phrases and concepts would at least be thorough. Unfortunately, here too he has failed. And the incredible aspect of his failure is that in dealing with the treatment of goodwill and "nothings" in the area of business and property income the minister has neglected to adequately define "business." Section 14(1), which deals with taxation of the proceeds of eligible capital expenditures, if a business is sold after 1971, is one of the main provisions in the area of treatment of goodwill and "nothings". Section 14(1), when applied, results in the creation of separate pools of cumulative eligible capital for each business carried on by the taxpayer. Yet, says the Canadian Bar Association:

—no assistance is given in the determination of what constitutes a business, the definition in section 248 being completely inappropriate for this purpose. Where a business is carried on in several divisions it would seem preferable to pool all property into one group for the purpose of section 14 and section 20(1)(b).

The Minister of Finance has also failed to include provisions for the valuation of "nothings" and goodwill on valuation day and to consider such property as non-depreciable capital property. The Canadian Bar Association calls this inequitable and goes on to say:

—we are cognizant of the difficulty involved in obtaining acceptable valuation. If it is unacceptable to treat such property as ordinary capital property then we strongly recommend that it should simply be classified as a separate class of depreciable property eligible for a 5 per cent capital cost allowance on a diminishing balance basis, with normal tax on half of any gain over capital cost allowances claimed. Such property could be deemed to have a zero cost on valuation day. It would be necessary to provide transitional rates for phasing in the capital gains tax and we would suggest that the appropriate figure is one-half of the percentages now provided for in transitional rules section 21.

In his treatment of goodwill and "nothings" the Minister of Finance has failed to set out relevant provisions more closely in the bill to avoid confusion. He should change the terminology in order to clarify the new provisions. He should define adequately the term "business" as it applies to section 14(1) and section 20(1)(b) and he should treat goodwill and "nothings" as non-depreciable property and provide for the valuation of "nothings" and goodwill on valuation day.

The Assistant Deputy Chairman: Shall section 14 carry?

Some hon. Members: Agreed.

Mr. Lambert (Edmonton West): No, Mr. Chairman. There is no question of section 14 carrying.

The Assistant Deputy Chairman: Order. I asked if section 14 carried, and this was agreed.