

not worth a cent more than before. Perhaps I should not say it, but I think this was done in connection with the income tax laws of the United States. There was a loss on capital account and there was a desire to cover it up. But it only meant that the Canadian shareholder had what he had before.

Hon. Mr. Hugessen: But under this amendment the Canadian shareholder will not be deemed to have received, in this country, a dividend which he did not in fact receive.

Hon. Mr. Haig: Correct.

Hon. Mr. Campbell: Honourable senators, I would now refer you to section 7 of the bill, which deals with depreciation. I should like to remind honourable members that most of the representations made to the Senate Committee on Income Tax two years ago were strongly in favour of the elimination of ministerial discretion. In attempting to get away from this ministerial discretionary power, the law has been amended so as to provide a basis for depreciation in an entirely new manner. One school of thought argued that a company or an individual engaged in business should be able to take any rate of depreciation and be held accountable for the sale of assets at a later date if a profit was realized on the sale.

Hon. Mr. Moraud: Does the copy of the bill that we have before us contain the amendments made in another place yesterday or the day before?

Hon. Mr. Campbell: No. What we have before us is the copy of the bill as read the first time in the other house. I have just received this copy, and on looking over it I find the amendments are not included. I understand that the amended bill will be ready when we go into the committee.

Hon. Mr. Moraud: But the intention is to have the bill referred to a committee today.

Hon. Mr. Campbell: The amended bill will state that sections 7 and 8 do not apply to farmers and fishermen.

I was going on to say that one school of thought argued that the basis of depreciation should be more liberal than in the past. It was pointed out that the allowance of extra depreciation during the war encouraged companies to get rid of obsolete machinery and buildings and to enter upon new construction, and it was claimed that on the whole a more liberal basis of depreciation, to include not only wear and tear but also obsolescence, would be a good thing.

Hon. Mr. Moraud: Would the honourable member explain why farmers and fishermen have been exempted from the provisions of sections 7 and 8?

Hon. Mr. Campbell: From the *Hansard* report of the debate in another place it appears to have been felt that farmers and fishermen would not be able to interpret the provisions of these two sections. I have not been able to discover any other reason. When I studied the sections I felt that farmers and fishermen may want to be made subject to them.

Hon. Mr. Nicol: If the sections are to apply only to those who can interpret them, some of us should be exempted.

Hon. Mr. Campbell: I hope that by the time I get through with my explanation honourable members will welcome the new provisions and be glad to come under them.

It will not be easy to explain the very complicated phraseology used in the bill, but I shall do my best. As of December 31, 1948, property values will be established for the purpose of applying the new basis of depreciation. The method used to establish the value of an asset will be to take the original cost of the asset to the taxpayer and deduct therefrom the ordinary depreciation allowed, the extra depreciation allowed during the war, the special depreciation allowed during the war, 50 per cent of any double depreciation allowed during the war, and any grants that were made to assist in the procurement or purchase of the asset. The resulting figure, which in most cases will be the figure at which the asset stands on the books of the company—

Hon. Mr. Haig: On the 1st of January 1949.

Hon. Mr. Campbell: Yes—will be the value upon which in future the owner will be entitled to depreciate the asset. A number of questions will naturally come to honourable members' minds. For instance, if he sells the asset within the first year, without taking any further depreciation under this new provision, what if any liability will he incur for taxation purposes? The answer, if I interpret the legislation correctly, is that he will not incur any liability for taxation purposes. In other words, there will be no retroactive feature. For the purpose of determining profit or loss with respect to the transaction the department will not go back beyond January 1, 1949, and take account of any depreciation which has been allowed before that. Let us assume that he carries the asset for four years, during which period he depreciates it by 50 per cent. Suppose the asset stood on his books as of the 1st of January, 1949, at \$1 million for future depreciation purposes, and over the next four years he takes depreciation which reduces the value to half a million dollars.

Hon. Mr. Hugessen: At the rates allowed.