

tion allowance should undoubtedly be made for depreciation, and the taxpayers should be given the benefit of any doubt; but where large profits are made and are put into renewals of a capital nature, or set aside for development of business, it is obvious that net earnings are cut down very materially. During the war, I think, it was proper that we should have those provisions, because many firms, for the purpose of getting war business, put up additions to their plants which would not represent in peace time the amount of capital invested in them. The cost of everything was very high and to meet war conditions there were expansions of plants which would not be required in a time of peace. But now that the war is, we hope, practically at an end and conditions are more normal, we propose to strike out the provision under which exemption is made for expenditure of capital for renewals or for the development of business.

As to the third matter mentioned in the section, it is of course only reasonable that in determining the net income derived from the working of timber limits, allowance should be made for exhaustion. That principle is applied in the case of mines, oil wells and other businesses.

Mr. LEMIEUX: Real estate?

Sir THOMAS WHITE: Yes. The depreciation varies according to the business. In one business it might be proper to allow 2 per cent and in another 5 per cent, while one can imagine a business in which as high as 10 per cent or more should be allowed. It depends on wear and tear of machinery and strain generally upon plant.

Mr. PEDLOW: Are the provisions of this paragraph intended to refer to retail merchandise on hand?

Sir THOMAS WHITE: No.

Mr. PEDLOW: Is any provision made covering the handling of stocks in retail merchandise on hand?

Sir THOMAS WHITE: My hon. friend has reference to depreciation in value of goods on hands. The inventories show that. There is a valuation of the goods on hand, and allowance is made for any fall in price.

Mr. PEDLOW: If the merchant has to give a return of merchandise on hand at cost under present conditions, it would be absolutely unfair, because the fluctuations are very great in the market on all kinds of merchandise. Certain merchandise may

be valued at so much to-day, and be very much less a month hence. A merchant buying merchandise to-day may have goods on hand a year from now, and when he takes stock his goods may not be worth the present cost price. What latitude will be allowed the commissioner in dealing with a case of that kind? It is important that there should be a decision along definite lines.

Sir THOMAS WHITE: Under our regulations adjustment may be made within a year. My hon. friend has in mind that a fall in price occurs. If within a year after the close of the accounting period it appears that a fall has taken place in the price of the goods from that shown in the inventory, allowance is made by the department. But it would not do to allow for depreciation on an apprehension that goods may fall in price, because, on the other hand, they might go up. The fall has actually to occur, and a year is given within which claim may be made for a reduction by reason of such fall.

Mr. PEDLOW: I understood that each accounting period had to be dealt with by itself.

Sir THOMAS WHITE: The Commissioner of Taxation tells me that the matter is being carried out.

Mr. CAHILL: With regard to the income derived from timber limits, what is the basis of estimating profits? I would suppose that the difference between the value of the standing timber and the cost of taking it out would represent the profit. Is that the basis?

Sir THOMAS WHITE: Yes, and on the basis of stumpage, which varies according to the different provinces. I need not tell the hon. member how difficult it is to ascertain what the net income is from the working of timber limits. The estimate has to be made as nearly as possible on net profits, and one of the items of deduction—I think a proper one—is depreciation in the exhaustion of the limit by reason of the cutting that has taken place.

Mr. CAHILL: You know what it costs to cut the timber and you know just what the timber is worth standing, so that your profit would be the difference between the worth of the timber standing and the cost of putting it on the market, and I do not see why special provision is made in regard to timber.