Mr. HANNAM: I was averaging the taxable income.

Hon. Mr. CAMPBELL: If you are speaking of averaging the taxable income, you are dealing with the matter that Senator Haig has suggested. I am suggesting to you that you had in mind, when you prepared your brief, the averaging of income over a period of five years.

Mr. HANNAM: I see what you mean. We use the term averaging income over a period of years for income tax purposes. When we spoke about a movable average, we referred to the average taxable income, and the average tax of that average taxable income.

The CHAIRMAN: I wonder if Mr. Elliott might care to make any comment on this rather complicated question.

Mr. ELLIOTT: Mr. Chairman, to answer the question specifically, I would say no, I do not wish to make any comment. In order to comply with your request may I say the situation in respect to the plan that I understand the witness is putting forward, is a plan that is nebulous in our minds as yet; therefore, we will always find difficulty in creating something out of a nebulous beginning.

But, for instance, take the case of the $800 profit and the $1,200 exemption which actually does not appear in the Act at all. There is $150 which converted into a revenue statement is the equivalent to $1,200; but, the plan of five years, if I understand it, is that the ordinary accounting method is always followed. If the farmer had a profit the first year of $800 it would have no relation at all to $1,200, and the item of $400 would not appear in the picture at all, although you can think about it and raise the question, is that $400 going to be a loss to him forever. The answer is no. In the first year he simply had a net profit of $800; when he goes into the four succeeding years, depending on whether he had a profit of loss, he wants to average that $800 net profit against a rise say to $2,000 profit in the second year and add the two of them together. You then get the figure of $2,800 and you take half of that until you build up your whole five years in profit or loss. All you do is average over five years net profits and net losses without regard to whether the farmer is married, single or whether he has ten children or one child. The $1,200 is the minimum for a married man without dependents. If he had more dependents, it would be necessary to find the value of the tax exemption for his dependent child, and convert that into revenue value. It all means that you do not consider these exemptions at all in this five-year average plan; after five years you simply take his average net income, and then apply the extension to that average. That is as I understand it.

The CHAIRMAN: Do you regard that system if it were adopted, as very complicated from the viewpoint of the Income Tax Branch?

Mr. ELLIOTT: Any system that takes in more than one year becomes complicated. I think that speaks for itself. If you took two years it would take that long to have the business completed; take five years and you have to keep the returns for five years; the same would apply to a period of ten years. The answer is clearly that it is administratively difficult.

Farmers are notorious for two things: one, they do not keep accounts in the regular manner at all even for one year. Therefore, if you extend this plan over five years, I would suggest that the farmer would have no record five years back; and would not be familiar with the figures, and he would wish the accounting to become the problem of the Income Tax Division.

Hon. Mr. ASELTINE: He would file a return every year.

Mr. ELLIOTT: He would file a return, but would probably lose his own copy and depend upon the Income Tax Division to keep his returns for five years. We would become the house of accounting for multiple farmers across the country. He having lost his return will come in and ask us for our record.