C. VALUATION

3.15

White Paper Proposal

Taxpayers to deduct from proceeds of sale of assets the value on "valuation day".

Comments

One of the points on which the briefs have been practically unanimous is that the proposed plan to value all assets, for capital gains purposes, at their value on valuation day could be unfair, if such value was below cost. Particularly at a time when the stock market and farm land values are at a low ebb, many taxpayers would find themselves paying capital gains tax on an actual loss.

The best argument in favour of the "market value only" valuation is its presumed relative simplicity. Another is that the proper way to treat unrealized capital gains and losses is on an accrual basis, day to day, month to month, or year to year, so that at any point in time the taxpayer has made a proper profit or a loss, as the case may be. Where that point in time is valuation day, there is an unrealized loss or gain, therefore, and that is the proper starting place for the new system; the accrued profit is not taxed, the accrued loss is a capital loss.

This latter argument, while theoretically sound, does not take into account the fact that in any income tax system what is taxed should be something that is added to the taxpayers' ability to pay. By proposing to include capital gains in income (with exceptions) and by broadening the tax base, the White Paper has accepted to some extent the Carter Report's definition of income as the accretion to economic power to purchase goods and services. To levy tax on what is neither a capital nor an income gain, but in fact an actual loss, is to go contrary to this concept, and indeed to any concept of equity.

Recommendation

We therefore recommend that the value of an asset for the commencement of the system should be the higher of cost or market where a gain was involved, and the lower of those two figures where a loss had occurred. This means that no gain would be recognized unless and to the extent that the proceeds of sale exceeded the higher of cost or market, and no loss would be allowable on a sale below the lower of cost or market.

We also recommend that taxpayers should be permitted the alternative to elect to take the cost of an asset and apportion the gain over the period of years the asset was held, and to pay tax on the proportion of the gain accrued after valuation day. This kind of "safe haven" rule should be available as a simple, quick, mechanical method to eliminate the necessity of valuation in