who pay the shot should make sure they are not being exploited.

In the case of businesses that are subject to income taxation, the taxpayers are called upon to pay 50 per cent of the expense accounts. This is why it is the responsibility of the tax collector to see to it that the people of Canada are not being overcharged.

Mr. Lambert (Edmonton West): And you know they are not.

Mr. Knowles (Winnipeg North Centre): My hon. friend says that they are not.

Mr. Lambert (Edmonton West): If the business is in a loss position, the taxpayer pays nothing.

Mr. Knowles (Winnipeg North Centre): I am thinking of the general position of corporations that pay 50 per cent. My hon. friend says they do not pay if a company is in a loss position. If the expense accounts help to create that loss, I submit that in one way or the other it is a case of the taxpayers having to pay part of the expense. This is why I think the government is justified in putting in this bill provisions to curb expense account living. My only quarrel with this—and this was stated quite clearly by our two members on the committee when they issued their minority report—is that the government has soft-pedalled and backed away from the very sharp position that was taken on expense account living, firstly in the Carter report and later in the government's own white paper.

May I come back to the point of my hon. friend who sits to my right and say that we are agreed that the philosophy should be applied across the board that people should not get away with lavish expense account living, which can amount to a hidden increase in the standard of living. I also suggest that in all cases those who pay the shot are the ones who should see to it that there is no abuse. The private associations that are not taxable have a responsibility to see that there is no abuse in their case, but the taxpayers have a responsibility to see to it that they are not exploited in the case of businesses that are taxable. That is why I think this provision should be in the bill—and if we had our way its terms would be even stronger.

• (3:10 p.m.)

Mr. Ritchie: Mr. Chairman, I should like to say just a few words about what has been said by the hon. member for Winnipeg North Centre. I have had some experience in respect of what he says, that taxpayers are paying 50 per cent. I attended three conventions of 75 I might have attended and found that the income tax regulations did not allow me to deduct any expense unless the bill was receipted—and it is usually impossible to get receipts for everything. There is not much leeway in the law in respect of expense accounts. If you want to live a lavish, expense account life you have to work at it. You would have to drop some of your other activities in order to accomplish this sort of living.

Let me say a little about the treatment of goodwill and "nothings". I think this is important in relation to this tax bill. The Minister of Finance said certain business expenditures have come to be known as "nothings" because taxpayers could not deduct them in the year incurred as they were capital in nature, or over a number of years by way of depreciation as no assets were acquired on which this depreciation could be claimed.

Goodwill has been defined as an asset of this kind. If a taxpayer purchased a business, he could not deduct or depreciate the portion of his purchase price that related to the goodwill of the business. Other examples of "nothings" have been costs of incorporation and costs of acquiring rights of an indefinite duration. "Nothings" under the old law are not deductible in the year incurred because they are capital in nature, and they are not depreciable because they do not give rise to an asset which is listed in one of the capital cost allowance classes.

Under Bill C-259 a new 10 per cent capital cost allowance class is created for "nothings". One-half of the cost of these assets will be depreciable, in line with the one-half rule for taxing capital gains and deducting capital losses. This new class would apply only to costs incurred after the new system commences.

The sale of goodwill under the old law means the proceeds on the sale of goodwill are generally tax exempt. Under the new bill, proceeds on the sale of goodwill owned at the commencement of the new system will be included in income to the extent of 20 per cent if sold in the first year, 22.5 per cent if sold in the second year, 25 per cent if sold in the third year, and so on until the thirteenth and subsequent years when 50 per cent of the proceeds will be included in income. One-half of the proceeds of the sale of goodwill connected with a business acquired or commenced after the start of the new system is credited to the "nothings" class.

What is the analysis of this? It sounds fairly simple but it is not. First of all, most of the key definitions with regard to the treatment of goodwill and "nothings" are found in section 14 of the bill. However, one key definition is found in section 54 and other very important provisions are found in section 24. In other words, the Minister of Finance's new treatment of goodwill and "nothings" is not only complicated in terms of new terminology, which I will refer to later, but the provisions of the bill itself are spread out, creating even more confusion. It would be preferable and certainly beneficial to everyone concerned if all the relevant provisions were more closely set out in the bill.

Speaking of the new terminology, in order for the Minister of Finance to create a new treatment of goodwill and "nothings" he had to create new terminology. For purposes of the new system, goodwill and "nothings" or similar intangible assets are referred to as eligible capital expenditures, or ECE. Here I refer to section 14(5)(b). There are certain requirements that eligible capital expenditures must fulfil. They are as follows. Eligible capital expenditure applies only to a business and not to investment property, which I think is difficult to define; eligible capital expenditure is the part of any capital outlay made after 1971 to gain or produce business income that is not otherwise deductible or depreciable; the cost or value of goodwill or other intangibles owned by the taxpayer at the end of 1971 are not eligible capital expenditures, and certainly the intangible assets with a fixed life are depreciable as class 14 property and are not eligible capital expenditures. Eligible capital expenditure does not include non-deductible current expenses, pay-