Hon. Mr. FRASER: If he does not buy a new one the $10,000 goes back into his earning account.

Hon. Mr. ABBOTT: Yes.

Hon. Mr. FRASER: Under our present rates of taxation he has only taken advantage of 40 per cent for taxation purposes. The other 60 per cent has been a capital investment of tax-paid funds of his own. Then you come along and charge this 40 per cent to the taxable income.

Hon. Mr. ABBOTT: We take out at the same rate we put back in. It must be remembered that on the other side of the picture, if he sells the crane for less than his depreciated value, he can charge that in against the profits. It he is under-depreciated, he gets the benefit of his under-depreciation.

Hon. Mr. FRASER: I find that companies and their auditors figure that when they write off twenty or forty per cent depreciation they have escaped taxation on the whole amount, instead of realizing the fact that they have invested their own tax paid funds. So that when you charge back the $10,000 into your taxable income, you are again taxed 40 per cent.

Hon. Mr. ABBOTT: You are taxed at the same rate that you put back in. In other words, there is no equity.

Hon. Mr. HAYDEN: A question arises in dealing with insurance. Supposing a rented house is totally destroyed by fire. In that case the ordinary provision here applies. What I was going to suggest was this. Supposing the person wanted to rebuild. If he had his insurance on an appraisal value he would be getting more in insurance than the depreciated value of the property at that moment. But when you applied your new depreciation rule you would leave him with less than the total amount that it would cost him to rebuild.

Hon. Mr. ABBOTT: If, as may well happen, I decide that it is appropriate to exclude investors in real estate from the operation of that rule which is primarily intended for fluctuating business operations, your point would be answered.

Hon. Mr. HAYDEN: But business people could be affected by it too. The suggestion I would like to have considered is this: if a man were left with the proceeds of the insurance and showed an intention to rebuild within a reasonable time, you would accomplish the same result if you said that the capital value of the new asset that he built would start off at the depreciated value of the old building at the time it was destroyed by fire. In that way he would be left with enough money to rebuild and it would not be necessary for property owners to carry increased insurance to cover any tax on the proceeds of insurance policies.

Hon. Mr. ABBOTT: I would have to think that out.

Hon. Mr. NICOL: Insurance policies in our province contain a statutory condition that the insurance company may rebuild instead of paying money over to the insured.

Hon. Mr. HAYDEN: What happens if the insurance company rebuilds the property?

Hon. Mr. ABBOTT: I take it, Senator Nicol, that the kind of case you have in mind is where a man collects $25,000, say, because a building has been completely destroyed by fire.

Hon. Mr. NICOL: No. Say a property valued at $20,000 is damaged by fire to the extent of $10,000 but the owner wants the insurance company to pay $15,000. The insurance company may say that instead of paying him $15,000 it will rebuild the damaged portion.

Hon. Mr. ABBOTT: In that case he does not receive any money but simply is given his building back.

Hon. Mr. NICOL: Yes. Let us assume that is done in 1950 and afterwards the property is depreciated.