

and the \$1 million goes into escrow. The seller desires to assign his \$1 million. Let us say for the sake of argument that the discount allowed is 20 per cent. The party desiring to build a new ship wants to buy the \$1 million credit in the escrow fund. He can get it for \$800,000. Under the present law he must find his \$800,000 immediately to pay off the owner of the escrow funds. Having done so, he gets the \$1 million credit for the replacement. The point is, however, that he must find the \$800,000 right away. It may take two or three years before his new ship can be delivered. During this time he loses interest on the \$800,000 he had paid out. The amendment under discussion eases that situation.

Honourable senators, going back to my original illustration, the tax on the ship that is sold for \$1 million amounts to \$300,000. The effect of the amendment is that the \$300,000 tax can be segregated and paid by the seller of the ship into the Consolidated Revenue Fund as security for the tax due. The \$300,000 is under some control by the Canadian Maritime Commission. The balance of the \$1 million, namely, \$700,000 would go into the escrow fund in a commercial bank and also would be under the control of the Canadian Maritime Commission. If the man who has the \$1 million credit now in two funds does not desire to replace the ship personally, he could assign his interest in his \$1 million and, again, say, for \$800,000.

Let us say he assigns it to me and I am going to replace that ship. I go to the Canadian Maritime Commission with a contract from a Canadian yard to build me a ship for, say, \$1 million, which may be deliverable in 12, 24 or 36 months. I know of the credit of \$700,000 in the escrow fund. I know that the \$300,000 security for tax due on that \$1 million sale is being held in the Consolidated Revenue Fund. Under the amendment, the Canadian Maritime Commission will say to me, "You have a contract and you are obligated to spend \$1 million to build a ship in Canada. On the strength of this contract, which binds you, if you pay \$100,000 to the man who owns the \$700,000 in the escrow fund, we will release that \$700,000." So the fellow who sold the obsolete ship then has his \$800,000 and he goes home.

As the progress payments on the new ship come due I will make my payments and do my financing as I am required to do it. At the same time the Canadian Maritime Commission will take the money in the Consolidated Revenue Fund,—the \$300,000 which is now no longer payable as a tax. That is a benefit by way of tax relief which comes out of this act. The ship is replaced and there is no recapture, as I said earlier. So the Commission

will make progress payments out of the \$300,000 on my new ship as it is built, as I make my payments on my remaining \$700,000. Finally the ship will get completely paid off. I will not have the heavy onus of financing \$800,000 at the beginning of my contract. I shall do my financing as my contract payments fall due.

Honourable senators, that is a very complicated explanation. But it is about the simplest type of explanation one could give. The amendment is a relieving piece of legislation in the interests of replacing Canadian-owned obsolete ships by ships constructed in Canadian yards.

There are other improvements to the act. Under the present act the 33½ per cent of straightline depreciation is available only to ships now on the Canadian register. The amendment proposes that this benefit will be extended to ships which replace wartime ships, even though these replacements may themselves go on the U.K. register.

**Hon. Mr. Reid:** But the replacement ship must be built in Canada?

**Hon. Mr. Connolly (Ottawa West):** Yes.

**Hon. Mr. Pratt:** To a person who wishes to avail himself of the provisions of this act, how long a period is allowed between the time he sells a vessel and purchases another to replace it?

**Hon. Mr. Connolly (Ottawa West):** Seven years. Under the present act the freedom from recapture, which I have discussed at such length, is available to only two classes of ships. I will not attempt to describe what these classes are. By the amending bill, these benefits are extended to every ship and every individual ship.

**Hon. Mr. Farris:** Why is there a tax of \$300,000? Is this not the case of the sale of a capital asset?

**Hon. Mr. Connolly (Ottawa West):** You are discussing the \$300,000 tax? The rule under the Income Tax Act applicable in this case is the rule I mentioned earlier on the recapture of depreciation. Perhaps I should go over that example again, for obviously I did not make myself clear. Let us say this wartime ship was originally purchased from War Assets Disposal Corporation for, say, \$750,000. The Income Tax regulations allow 15 per cent per annum depreciation on a reducing balance. Let us say that at the time of sale the ship has been depreciated down to \$400,000, and then the sale takes place. Say the market is favourable and it is sold for \$1 million. The difference between the \$400,000 and the \$1 million, under the present Income Tax Act—and this applies to all depreciable assets—becomes income and is