

rate on the first \$10,000 of profit, and will take care of most of the reasonable complaints against the law as passed last year.

Last year parliament approved a new system for depreciation allowances. Following considerable discussion in the house it was agreed to allow farmers and fishermen to continue under the old system. I expressed the opinion at that time that farmers would probably be better off under the new system than under the old. Apparently after having studied the new system many farmers are now inclined to agree with that view. Accordingly it is proposed to give farmers and fishermen the option of adopting the new system. It will, of course, have to be provided that once a taxpayer elects to adopt the new system it will not be permissible to revert to the old system.

The special write-off privilege for exploration and prospecting expenses in the oil and mining industries should, we suggest, be extended by adding a further year to the present periods provided in the law. It is also proposed to repeal the provision in our law which imposes a corporation tax on the income received by a trustee for holders of oil royalties.

During the past year there has been considerable uncertainty in the mining industry with regard to the position of prospectors and those who are engaged in developing our mineral resources. From the early forties onward, it has been the practice to interpret the law as not subjecting to tax gains made by bona fide prospectors and developers in discovering and proving up mining properties. As the house knows, our Income Tax Act was completely rewritten, and the new act has been in force since the beginning of 1949. The new act contains no clear-cut authority for the practice which has been followed during the past decade. The position under the law of these important groups should be clarified, and we are proposing this year to introduce an amendment which should allay the fears of many who have in recent months been concerned about this matter.

Perhaps I might also take this opportunity, in view of recent public interest in the question, to assure the house that it is not the policy of the government to tax capital gains. Under any income tax law there is always a very difficult problem in drawing a line between gains which are profits from carrying on a trade or business and those which are not. To my knowledge no tax legislation has ever been passed in any country that has removed all doubts on this score. In England, where our basis of income tax had its origin, the matter has been settled almost entirely by the courts, taking into account the facts in each individual case. Much as I would like to introduce greater certainty, I do not believe that it can be done satisfactorily by legislation. We now have a readily available Income Tax Appeal Board that has been set up to determine questions of this sort. I might add that, in order to facilitate the appeal procedure, it is now proposed to allow members of the board to hear cases individually, and also to allow the taxpayer, if he wishes, to go direct to the Exchequer Court instead of being required to proceed first to the Income Tax Appeal Board.

In the budget of last March I announced that I had been considering further legislation to deal with the position of closely-held companies where their growth had been financed out of retained profits. I now have definite proposals which will be placed before the house for consideration. The new sections are bound to be complicated, and I hesitate to attempt to