

Mr. STIKEMAN: That is very clear.

Mr. HANNAM: I have two sentences here that I think state it fairly clearly. When animals are sold to reduce the number below the basic herd, the taxpayer may elect to consider such receipts as capital, but if he does so, the size of his basic herd is reduced accordingly. Additions and purchases from outside will not be allowed as an expense if the basic herd is increased accordingly. If the home grown stock is added to the basic herd, their normal value must be considered income of the year and the taxes paid accordingly.

Mr. STIKEMAN: Does the farmer depreciate the herd as a unit, or only depreciate the basic herd?

Mr. HANNAM: I think I have not considered the implications of that. Perhaps I should say at the moment that I do not know.

Hon. Mr. CRERAR: Mr. Stikeman, would you repeat that question?

Mr. STIKEMAN: I asked Mr. Hannam if the farmer seeks to depreciate the entire herd, including the basic herd, or only the cattle representing the basic herd, which is his capital asset.

Hon. Mr. CRERAR: What do you mean by "depreciate"?

Mr. STIKEMAN: I imagine that the farmer would keep up a reserve on profits on his livestock for the depletion of his herd.

Hon. Mr. CRERAR: Against decline in the future?

Mr. STIKEMAN: Yes.

Hon. Mr. HAIG: Depending on whether it was on a cash or value basis.

Mr. STIKEMAN: Mr. Hannam would be on an accrual basis. He is treating the herd as inventory.

Hon. Mr. HAIG: I think the farmer runs on a cash basis.

Mr. HANNAM: This is a modified inventory plan that can be used by the farmer on a cash basis.

Mr. STIKEMAN: But it puts him in fact on an accrual basis by valuing his gross inventory in terms of herd.

Mr. HANNAM: It does in respect to one item on his farm, that is his breeding stock.

The CHAIRMAN: On the specific question, Mr. Hannam prefers to say he does not know.

Mr. HANNAM: On the other hand, if you wish me to answer, I would think that in case depreciation is allowed on the breeding herd, at least in this connection it would be on the basic herd.

Mr. STIKEMAN: Only?

Mr. HANNAM: Only. It respects his income.

Mr. STIKEMAN: It respects the inventory.

Hon. Mr. BENCH: Depreciation is presently allowed on livestock, as I understand it?

Mr. HANNAM: Yes.

Mr. STIKEMAN: Mr. Chairman, that is the extent of my question.

Hon. Mr. HAIG: There is one question I would like to ask Mr. Stikeman. Mr. Hannam said that the farmer was not allowed the exemption of \$1,200 before he is taxable.

Hon. Mr. HAYDEN: That was not what Mr. Hannam said.

Hon. Mr. HAIG: Well let us clear that up.

Mr. STIKEMAN: I did not get the full import of that question.