

of two and a half or five per cent or whatever it may be and uses it. Now after five or ten years he sells the property. Well, you come along and you tell him, "Now, you have taken 5 per cent during those ten years, you have sold that property at a profit, you have made an investment, you have not had any interest on it, except that you have taken depreciation. Now you are going to be taxed for that ten years' depreciation, and all at once, all in one year." Could you not do something about it?

Mr. GAVSIE: Well, senator, perhaps this may not be the answer, but it is another thought that you should take into consideration, that under these rules the person is not obliged—supposing in any one year the property brings in some income, the next year maybe it is vacant for part of the year—the person is not obliged to take any particular part of the depreciation.

Hon. Mr. MORAUD: No, but he has to in my case. He is a poor fellow, he has to take it, it is part of his income. Instead of taking 3 per cent on a bond he takes the two and a half per cent which is allowed as an expense apart from the depreciation. The depreciation or what we call depreciation here is the recovery of the capital cost. Let us assume that the rent is \$1,000, that his interest on his mortgage and his taxes and his repairs come to \$1,000. He would be ill advised, unless there was some other reason, to take any depreciation.

Hon. Mr. MORAUD: You do not figure the interest on the money that he has invested, the interest that he would get if he bought a bond.

Mr. GAVSIE: I am afraid that is a question of policy I do not want to get into.

Hon. Mr. EULER: I should like to ask a question in view of Senator Nicol's motion. It may influence us to some extent. It was stated, either by Dr. Eaton or by Mr. Gavsie, that the two controversial clauses, 7 and 8, dealing with depreciation, are the direct result of the taking away from the minister the powers of discretion—practically all of them.

Hon. Mr. VIEN: The powers to make regulations.

The CHAIRMAN: It is not the direct result.

Hon. Mr. EULER: I think Dr. Eaton did say that the reason why some of this legislation is necessary, is a direct result of these powers of discretion in a large measure being taken away from the minister. Am I right?

Dr. EATON: Well, yes.

Hon. Mr. EULER: Now, we certainly do not want to reject the whole bill because I suppose that would wipe out the reductions in taxation. Therefore, the only question in issue is based on these two sections, 7 and 8. If we did eliminate these two sections would the bill then become unworkable for the reason he has stated?

Dr. EATON: I should like to clarify the first point. The change over in the system from what has been described as the old straight-line method of the diminishing balance principle, is not what has made the law necessary. There would have been a complicated law, even if we had not changed the system of depreciation. That is the point. We took away the discretion under which depreciation allowances were granted in the past, and as the result of that there had to be a new law of depreciation of one kind or another.

Hon. Mr. EULER: If these sections did not carry would we have a way of dealing with this matter?

Dr. EATON: We would still have to have regulations. The two things coincide, the fact that the ministerial discretion was taken away meant that there had to be specific authority for depreciation.

Hon. Mr. EULER: If these two clauses were left out what would happen?

Dr. EATON: There would have to be regulations made under section 11 (1) (a). I cannot say whether there would have to be anything in addition to that to make the old system work.