

On section 8: excess of proceeds over undepreciated capital cost.

The CHAIRMAN: Perhaps, Dr. Eaton, you will be good enough to explain it. We are sorry to call on you so much.

Dr. EATON: That is quite all right. This is many words for a very small but important amendment.

Perhaps I can sum it up in this way, that where purchase and sale of assets of the same class occur within a taxation year, one may be offset against the other. Instead of being required to take the proceeds of the sale into income subject to tax, to the extent of depreciation taken since the 1st of January 1949, instead of having that taken into profit and loss account the taxpayer can reduce the cost for depreciation of the newly purchased asset by that amount.

Hon. Mr. McKEEN: If I had a piece of property or equipment that was worth \$20,000 in 1949 and was depreciated to \$10,000 today, and if this was sold for \$20,000 and I bought a new piece of property for \$20,000, it would go on my books at \$10,000?

Dr. EATON: Yes.

Hon. Mr. HAIG: The other day in the Senate I asked a question of Senator Hayden, who explained this bill in the Senate. He telephoned me this morning and said that the answer he gave me was correct but was not an answer to my question. My question was this. Suppose I purchased a house on the 1st of January 1941 for \$10,000 and I immediately rented the property. It being a frame house, I depreciated it \$500 a year, which is the amount permitted by the department, for eight years, so that on the 1st of January 1949 it was depreciated to \$6,000. No depreciation is taken for 1949 or 1950. If during the summer of 1950 I sell the house for \$12,000, I suggest there is no recaptured money there at all.

Dr. EATON: That is correct.

Hon. Mr. KINLEY: How about vessel property, where there is accelerated depreciation?

Dr. EATON: Special depreciation prior to 1949?

Hon. Mr. KINLEY: Yes.

Dr. EATON: Yes.

Dr. EATON: That is subject to recapture.

Hon. Mr. CRERAR: Take a farmer who has \$10,000 worth of farm implements, which he has depreciated to a certain point. Then he goes out of farming entirely and sells those implements for \$2,000 more than their depreciated value. As I understand it, the \$2,000 comes into income.

Dr. EATON: May I ask Mr. Pook to answer that question?

Mr. POOK: This section may or may not apply to the farming business.

Hon. Mr. HAYDEN: Depending on the election made by the taxpayer?

Mr. POOK: Yes. Under the old system there would be no recapture, but under the new system the amount would be subject to recapture and brought into income in the year in which the property was disposed of.

Hon. Mr. CRERAR: But if on the sale the farmer realized \$2,000 less than the depreciated value, is he given credit?

Mr. POOK: If he sells all his machinery for \$2,000 less than the balance that is on his books, he can deduct \$2,000 in that last year, so long as he is using the new system.

Hon. Mr. CRERAR: But suppose he does not make any profit that year, can he go back?

Mr. POOLE: There is a carry-forward and carry-back provision.