stock? That is to say, he would be treating his capital as dispersal sale of livestock; but a farmer in the dairy or wheat business would not treat his capital or dispersal sale of livestock the same as the farmer in the business or raising and selling livestock?

Mr. HANNAM: I would think it would apply to all farmers in the region.

Mr. STIKEMAN: You would treat all dispersal sales, regardless of whether the farmer was normally engaged in selling of livestock, as a capital item.

Mr. HANNAM: That is right. We would think that this suggestion of ours is parallel to an inventory basis, except that it is a modified form of handling inventory.

Mr. STIKEMAN: It amounts to a bulk sale; it is a matter of disposing of everything a farmer has.

Mr. HANNAM: Not necessarily; I said a reduction on dispersal sale. It applies to the man who may wish to disperse half of his herd in one sale.

Mr. STIKEMAN: When a man is in the business of raising and selling livestock and sells half his herd at a dispersal sale, how do you determine whether he is taking advantage of a good market or dispersing his herd?

Mr. HANNAM: I do not think it would matter as I see it, Mr. Chairman, as long as he properly establishes his basic herd—if he carries forward his basic herd. An allowance would have to be made if he put additional animals into his basic herd, and if he has not capitalized them in his herd then they are income.

Mr. STIKEMAN: That amounts to treating his herd as inventory; taking the value of the gross inventory, and the cattle remaining at the end of the year, would determine the number disposed of during the year, on which he would be taxed. But, if he ate into his basic herd, then to the extent that his sales decreased that basic herd you would not tax the sale of those cattle. Is that the picture?

Mr. HANNAM: I think it would work automatically. For instance, a farmer has a basic herd of 30 cows, he sells 5 cows and he wishes to consider those 5 cows as return on capital. He automatically reduces his basic herd to 25. He can make his choice. He can regard the cows as income and pay taxes on them, if he wishes to, but he still has a basic herd of 30.

Mr. STIKEMAN: Take for example a rancher had a basic herd of 50 cows when he started in business ten years ago, and gradually built up his herd to a thousand head of cattle. He then sold 500 head of cattle, which is half his entire herd. You would tax him either on the whole 500 or on the 450, at his option; but, if you taxed him on the 450 head, then he would no longer have the basic herd when he finally closed out. Is that understranding correct?

Mr. HANNAM: At the time of his sale of 500 head the farmer would regard so many of them as income, depending upon how many he capitalized by his past operations, in making his past returns for taxes; that would establish how many he would have in his basic herd. If he had actually qualified for only 100 of a basic herd, he would have to pay income tax on 400.

Mr. STIKEMAN: The example I gave was that he started with 50 head and gradually increased to one thousand, selling 500. I understand he has the option of capitalizing 50 in which case the tax would be on 450, and he would be left with 500, all of which would be taxable when he chose to sell them.

Mr. HANNAM: Each year as his herd increased, he would be under an obligation to decide what he was going to do with them. Supposing he had in any one year 25 heifers growing up; if he wished to put into his basic herd the 25 heifers and increase it to 75, he would have to pay taxes on the 25, because they represented income as he sold them to himself as capital.