

from year to year through the writing off of depreciation and the rate that would apply to the whole amount.

Hon. Mr. Haig: Right.

Hon. Mr. Roebuck: There is not only the variation from year to year, but the possible application of a higher rate to the whole amount.

Hon. Mr. Hayden: Right.

Hon. Mr. Haig: I am going to ask for some cheap advice.

Hon. Mr. Hayden: And that is what you may get.

Hon. Mr. Haig: A sidewalk opinion. Suppose a client came to you next year and said, "Senator, should I take depreciation or not?" What would your advice be?

Hon. Mr. Hayden: I cannot say at the moment, for I do not know enough about this bill. My advice would depend somewhat upon the financial means of the individual or corporation. If the taxpayer was financially able to afford a gamble on the future, my advice would be to take the bird in hand, charge off depreciation, and gamble on the future.

Hon. Mr. Haig: But suppose you were asked for advice by an individual who was not too well off. Let us say he owned a house for which he had paid \$10,000 and which as of the 1st of January 1949 had been depreciated to \$6,000.

Hon. Mr. Hayden: In that case I would advise the owner to keep the house in as good repair as he could, to charge up against his rents as much as the department would allow for maintenance, and keep the capital gain for himself and gamble on the future.

Hon. Mr. Haig: And not take depreciation.

Hon. Mr. Hayden: That would be my advice.

Hon. Mr. Haig: That would be my advice too.

Hon. Mr. Hayden: May I say a few words more on the subject of depreciation in relation to sale price? The bill refers to "the proceeds of disposition" of a property. Those words simply mean the amount obtained at a sale. The bill contains many phrases that certainly make it difficult to understand readily what the draftsman was seeking to convey.

Hon. Mr. Reid: They will all help the lawyers.

Hon. Mr. Hayden: My honourable friend will notice that I simply commented on the presence of the phrases and did not criticise their use. The "proceeds of disposition" of a property might include many things. If

a property was expropriated by a governmental authority, the proceeds would be treated in the same way as if a sale had been made. Then there is the type of case which the leader of the opposition (Hon. Mr. Haig) mentioned by way of illustration. If I owned a house that I rented and had it insured for its full insurable value, that would in all probability be more than the depreciated value of the property, because the insurance would be on the basis of cost or of fair market value at the time. If the house was totally destroyed by fire the proceeds of the insurance policy would be treated in the same way as if they were the proceeds of a sale.

Hon. Mr. Hugessen: You would advise me, then, not to have a fire?

Hon. Mr. Hayden: I was going to give a little different advice. Now, here is a situation that might be created. If my building were totally destroyed by fire, and if from the insurance moneys there were taken an amount to compensate the government for the depreciation allowances made to me, I would receive less than the value of the property at the time of the fire. In other words, I would not receive from the insurance company enough money to enable me to rebuild the property at that time.

Hon. Mr. Nicol: I presume the honourable senator knows that when a building is destroyed by fire the insurance company has the choice of paying the amount of the policy or rebuilding the property. If the company chose to rebuild, what would the government do?

Hon. Mr. Hayden: I am glad the honourable gentleman has raised that point. Subsection 3 (c), on page 6 of the bill, says:

"Proceeds of disposition" of property include
(iii) an amount payable under a policy of insurance in respect of loss or destruction of property.

As I see it, property owners will have to be advised that in addition to insuring their property as heretofore they may have to arrange for insurance that would provide enough money to pay the income tax upon the amount that would be added to their taxable income for any year in which they happened to have their property destroyed by fire. There would have to be an added charge for insurance premiums, so as to give protection against reduced payment out of the insurance proceeds.

Hon. Mr. Haig: Before my honourable friend leaves that point, may I ask him if it is not likely that insurance companies will work out a policy, perhaps at a higher premium rate, under which they would guarantee to rebuild a house that was totally destroyed?