

*Income Tax Act*

the other parties, I would ask that Your Honour call the sections which I shall enumerate. There has been general agreement that they be passed. First of all I would move the suspension of debate on section 14 so that we can deal with this matter.

**The Chairman:** Is it agreed that debate on section 14 be adjourned for the purpose of proceeding with other sections?

[Translation]

**Mr. Clermont:** Mr. Chairman, the hon. member for Sudbury (Mr. Jerome), the Parliamentary Secretary to the President of the Privy Council, announced that the same sections would be discussed on Monday. On November 22, 1971, as recorded at page 9777 of *Hansard*, the hon. member for Sudbury said the following:

—business and property income, which would be commenced on Friday and concluded on Monday—

So, if such is the case, I am not against section 14 being considered later.

• (3:50 p.m.)

**Mr. Lambert (Edmonton West):** Mr. Chairman, I think a false interpretation is given of the agreements between the leaders of the different parties since Monday we are going to discuss those sections grouped under the heading "Corporations" because the debate scheduled for last Wednesday has been postponed to Monday.

We are now dealing with business and property income. Since section 14 is the first one I asked that the debate on that section be postponed only because I wanted the House to carry certain sections.

**Mr. Clermont:** I have no objection, Mr. Chairman.

[English]

**Mr. Lambert (Edmonton West):** Mr. Chairman, if you would call sections 26, 36, 37, 138, 139, 140, 208, 209, 210, and 211 I think there would be disposition to agree to them.

[Translation]

**Mr. Clermont:** Mr. Chairman, I think I should suggest to the hon. member for Edmonton West that before sections 138 and 208 are carried we should pass the amendments moved by the Minister of Finance (Mr. Benson) and the Minister of National Revenue (Mr. Gray).

**Mr. Lambert (Edmonton West):** Mr. Chairman, the hon. member is right. We shall pass them.

[English]

**The Chairman:** The Chair agrees with the parliamentary secretary that with regard to the two sections he has mentioned amendments have been proposed by the Minister of National Revenue. Is the committee ready for the question on section 26?

**Some hon. Members:** Question.

Clause 1, section 26, agreed to.

Clause 1, sections 36 and 37 agreed to.

**The Chairman:** The Minister of National Revenue has moved an amendment to section 138, as recorded at page

[Mr. Lambert (Edmonton West).]

8954 of *Hansard* for October 22. Shall the amendment carry?

Amendment (Mr. Gray) agreed to.

Clause 1, section 138, as amended, agreed to.

Clause 1, sections 139 and 140, agreed to.

**The Chairman:** The Minister of National Revenue has moved an amendment to section 208, as recorded at page 8958 of *Hansard* for October 22. Shall the amendment carry?

Amendment (Mr. Gray) agreed to.

Clause 1, section 208, as amended, agreed to.

Clause 1, sections 209 and 211 inclusive agreed to.

**The Chairman:** Does the committee wish to revert to section 14?

**Some hon. Members:** Agreed.

On clause 1—section 14: *Sale of goodwill and other "nothings"*.

**Mr. Lambert (Edmonton West):** Mr. Chairman, section 14 deals with the sale of goodwill and other "nothings," or intangibles. The argument about this is old. Although officials of the department are fully cognizant of business arguments in this regard, they have failed to heed the representations of accountants and tax lawyers and have not listened to reasonable arguments. There are difficulties in certain areas. I am told that the whole concept of goodwill, as proposed by the government in this section, is unreasonable.

The taxation of the proceeds of the sale of goodwill without recognition of the cost can be a very serious problem. Let me give an example. We will assume that two companies which purchased goodwill for \$1 million in 1971 resold it in 1974, and that in the first case the goodwill was resold for \$2 million and in the second for \$500,000. In one case, therefore, there has been an accretion of 100 per cent, and in the second case there has been a 50 per cent loss. In the case of the company that bought goodwill for \$1 million and sold it for \$2 million, the real gain is \$1 million and the portion that is to be included in income, according to section 259, is \$500,000 or 25 per cent. The portion that is taxable—deductible—or that may be treated as a capital asset is \$500,000.

In the second case, where the proceeds of the sale represent half the original cost, or \$500,000, there is still to be included in income 25 per cent or a total of \$125,000. The real loss has been \$500,000, yet the deductible portion, or that portion that is treated as a capital asset, is \$250,000. Thus, the tax is appropriate to case A, but only in 1974, and is totally inappropriate in case B.

I am told that this results from the transitional rules that do not recognize the opening cost or value of goodwill. The provision should be modified to permit the valuation and amortization of existing goodwill at valuation day value and the deduction of this goodwill against subsequent sale proceeds and a capital gain or loss. The treatment of goodwill in this way would overcome many problems and would be much fairer.

It seems to me that goodwill is acquired in the way any other asset is acquired. On the acquisition of a business, an amount is paid for goodwill, which is recorded. It is