more averaging. It has already been taken care of in some degree. That is, we take his losses one year back and charge them against the forty-bushel crop sold at a good price.

Hon. Mr. ASELTINE: But take a case where the farmer breaks even for four years and then has a good crop. That happens frequently in the wheat-growing area.

Mr. ELLIOTT: One fault of the averaging is that you are moving your breaking point in from the profit and loss statement up into the exemptions to which he was entitled over those five years. He could accumulate his exemptions and charge them all in one sum against the profit of the fifth year. That is a brand new idea and I doubt if it would be acceptable.

The CHAIRMAN: Why would that not apply just as well to any other line of business?

Mr. ELLIOTT: Well, it could, I suppose. If a man had ten children he would be entitled to fairly high exemptions, and if he did not earn enough to make him taxable for a number of years, then one year when he did earn a taxable income he could accumulate his exemptions for the last four or five years. That could be carried on to a degree where the Crown would not get anything out of it at all. The idea of taxation, of course, is to bring in revenue.

Hon. Mr. CRERAR: Take again the illustration I gave, a man having four crop failures and in the fifth year making a profit, say $5,000. For three years before, let us say, he has been unable to pay the interest on the mortgage on his farm, and he may have got a few years behind in taxes. Can he charge those payments as an expense up against the $5,000?

Mr. ELLIOTT: No. He can charge the interest and the taxes only for the year in which he made the profit.

The CHAIRMAN: That is true of everybody else.

Hon. Mr. DAVIES: May I ask with regard to a dispersal sale? What happens if a farmer sells his business as a going concern? If a grocer or hardware man sells out his business as a going concern, what he gets for the business is treated as capital. But if a farmer sells his business as a going concern, is the livestock on his farm treated as capital for income tax purposes or not?

Mr. ELLIOTT: I suppose, Mr. Chairman, I am again elected to answer the question. You were in error in part of your statement, Senator, with regard to a hardware man. We frequently have the problem of a hardware man who sells out his business lock, stock and barrel. If he has an inventory—which he will have, because he is a going concern—he must show the profit which accrues to him by selling that inventory. That is an income profit. The price he got for the location, his goodwill, his name, his buildings, his machinery and his equipment, is capital. Of course the question that comes immediately to mind is: if it be a lump sum sale how do you determine how much applies to inventory and how much to capital? That is a matter which you must adjust. But you will usually find that when a man buys a business he asks for an inventory. Then you say to the man who sold out, "Well, now, if you had sold those articles in the normal way, your normal profit would have been 25 or 30 per cent, whatever it is." We are forced to make a split of the total amount received into so much for revenue and so much for capital. Instead of selling his goods piecemeal, he has sold them en bloc. The profit when he sells en bloc is usually not as high as when he sells piecemeal. You have got to think about the purchaser, who will have to make something on that inventory.

Hon. Mr. DAVIES: What happens to the farmer?

Mr. ELLIOTT: The farmer has cattle. That is his inventory. His land, buildings, and equipment are capital. When a farmer sells en bloc, everything that I said about the hardware merchant would apply to the farmer. What