

Mr. RUTLEDGE. No; all those expenses are—in other words, if you lose money now on a grove that is 5 or 6 or 10 years old you can charge this off to expenses. What we are after here is not to make it profitable.

Mr. WATTS. If somebody has had an orange grove we will say for 20 years and he makes money on it—I am just trying to get some information. I am not familiar with it. I come from Kentucky where we raise tobacco, not citrus fruit—if he, say, has had a growth of 20 years and in 1968 he makes money he is not allowed to charge off as expenses the spraying and the pruning or whatever there is.

Mr. RUTLEDGE. Yes, sir.

Mr. HERLONG. In that year he can.

Mr. RUTLEDGE. This bill that we are referring to would only affect young growers put in the ground and only would affect those young groves up to 4 years.

Mr. HERLONG. If I may explain to the gentleman—

Mr. WATTS. I guess I got off the track.

Mr. HERLONG (continuing). An orange grove doesn't produce any crop for the first 4 years so what you are doing is building up a capital investment and some people are building up this capital investment by the use of normal income and charging it off as an expense rather than as capital outlay.

Mr. WATTS. Then they sell?

Mr. HERLONG. Yes; and get a capital gain on the difference between what they paid for the row land and what they sell the production grove for.

Mr. WATTS. I can see the loophole there but if I understood him, he said if a man continued to own that grove for 20 years and made money on it he would still be in the same position.

Mr. RUTLEDGE. No.

Mr. HERLONG. No. He would still add to the capital cost of that orange grove the money spent in producing it for the first 4 years but after that each year stands on its own bottom.

Mr. RUTLEDGE. That is right.

Mr. WATTS. Well, at the end of the fourth year he would have a capital investment of  $x$  dollars. Then after the fourth year whatever expense he was out in producing fruit would be a deductible expense; am I correct?

Mr. RUTLEDGE. That is correct.

Mr. WATTS. That sounds fair to me. I misunderstood. I thought I asked you if he continue to have it for 20 years would he still have to capitalize all of the expenses on it. I thought you answered me by saying if he made money he would.

Mr. RUTLEDGE. No; I didn't mean to say that.

Mr. WATTS. What I misinterpreted that you meant was when he did sell it if he had it 20 years he had a capital gain on the expense that he had had for the first 4 years.

Mr. RUTLEDGE. That would still be.

Mr. WATTS. After that he is just like anybody else that is farming. He charges off his current expenses against current income of that year.

Mr. RUTLEDGE. Yes, sir.

Mr. WATTS. That sounds reasonable. Thank you, sir.