

Income Tax Act

he is working for a wage—there are many instances near large urban centres where a person is living on a farm and is gaining some income from the farm and at the same time he is working for a wage, and I suppose in many cases actually making more by way of taxable income from his other line of work than he is from the farming operation itself, nevertheless the entire line of work he is carrying on might be regarded as one operation in many respects—my understanding is that if in fact a loss is incurred in the farming operation in circumstances such as that he will be able to write off that loss in computing his taxable income. I want to clear that matter up.

I am interested in knowing just how far the scope of this section extends. What are the guidelines? Is this simply a discretionary section where in fact the Department of National Revenue will have to develop its guidelines, will have to develop regulations as time goes on? Or just what is the case? I would be interested in knowing more about the concept involved in this particular section.

I suppose I might even make reference to the fact that there are some farmers who are also Members of Parliament. What is the situation with regard to them? Are they to be included? I do not wish especially to draw attention to that, but it is simply one example of the type of situation that may exist and that should be considered.

I also want to deal with the question—it may have been adequately answered already by the parliamentary secretary—that has to do with the problem of the variability of farm income. If I understood the parliamentary secretary correctly, there may be a situation where a person is engaged in farming together with another line of work, and in some years his major source of income may be from farming but in other years he may have a very low level of income from farming or may incur a loss. What then is the situation in this regard? There are any number of combinations of circumstances that a person might run into and that might occur, and I would like to have further clarification from the parliamentary secretary on this matter as well.

I want to conclude by saying that I am happy the government has agreed to reconsider the section concerning the basic herd. I hope some way will be found to come up with an adequate solution to this problem because I think it is very important to the future of the agricultural industry. It is a very important matter in relation to programs which might be carried on by this government and by the governments of various provinces in an attempt to diversify the agricultural industry, to expand livestock operations, and thus to work toward a more healthy agricultural industry than we have at the present time.

Mr. Mahoney: Mr. Chairman, the hon. member for Regina East posed so many questions that perhaps I should take the opportunity to answer them, at least as much as I can, while they are fresh. Personally, Mr. Chairman, and I am very much aware of the contention of the Canadian Cattlemen's Association that somehow the removal of the basic herd concept would impel ranchers to move from the cash to the accrual basis, I must say that so far the continuity of the logic of that argument has escaped me. That, of course, is one of the reasons why we

[Mr. Burton.]

have suggested that we not deal with section 29 at this time.

At the moment, of course, with the basic herd a rancher pays for his stock with tax paid dollars. In a sense he is paying a little more tax in advance so that he will have a tax-free capital gain out of it at the end, if he feels this kind of planning is presumably to his advantage. Just why the farmer would feel impelled to switch from the cash to the accrual accounting system as a result of this particular provision in the bill, I do not know.

I think I should point out to the hon. member, and to the cattlemen, that they have drawn an analogy between this situation in which, if the rancher or the farmer did decide to make this move, would be a voluntary move and the provision for the move to the accrual accounting system by professionals. In the case of professionals, of course, the changes in the act will require that they change from cash to accrual accounting. It was felt appropriate that some transitional provisions be allowed in that case. In the case of farmers and ranchers any such change from a cash to an accrual basis would be voluntary and the desirability of transitional provisions is not apparent.

• (12:50 p.m.)

The hon. member referred to section 12(1)(g). This, of course, is a section that remains unchanged from the existing act and the exclusion of agricultural land was noted. The type of property that would be included in that would be other resource properties, for example, mining property, the sale price of which is in essence related to prospective production although it may be expressed in capital terms. That is type of situation which this particular section, one of long standing, is intended to cover.

The parameters of the gentleman farmer and his definition have been discussed here and basically this comes under section 31(1). The section says:

Where a taxpayer's chief source of income for a taxation year is neither farming nor a combination of farming and some other source of income—

What is contemplated is that he is a bona fide farmer and is not just dabbling in farming as a hobby. There are no regulations under this section and there is no change in it from the existing act. The question of whether he is or is not a hobby farmer is one of fact. It is one that is open to appeal through the usual procedures if the taxpayer disputes the initial ruling of the assessor. I am afraid I cannot be very helpful to the hon. member in defining that much further.

As I indicated earlier to the hon. member for Battle River in reply to a similar line of questioning, particular situations can certainly be referred to the Department of National Revenue and we can get examples of what the rulings have been in these situations in the past. I did suggest to the hon. member that in all likelihood a person would have some difficulty if only 5 per cent of his income was derived from farming and 95 per cent from other sources. It might be difficult for him to establish himself as a bona fide farmer in the initial circumstances. On the other hand, if he had been and was a bona fide farmer and for some reason or other his farming income had dropped off, there is no reason to think that he would be excluded as a farmer. It is my understanding that once he is a farmer or his income is derived from farming and