

Income Tax Act

productivity value of that farmland. Since the capital value of land represents a very high proportion of nearly all farm units, it is understandable why this item is so significant and important to family farm units that are now incorporated or in a partnership.

A closely related corollary of this question of farmland values is the massive growth of farm debt during the last decade, but mostly after the new tax concept was introduced in 1972. Canadian farm debt has now more than doubled from 4.6 billion in 1970 to \$10 billion in 1978, a figure that is almost equivalent to the total government spending in the year 1968. You might say that farmers have borrowed themselves into prosperity. The ultimate choice had to be either to support the family farm concept or change the capital gains tax laws.

In this bill we are debating today we are fortunately seeing the changes that are needed. It should, however, be emphasized that this is a tax deferral and not a tax forgiveness. Essentially, it permits the transfer of farmlands and depreciable farm property from a farmer to his children without payment of capital gains tax at the time of the transfer, the same provision that individual farm operators have had since 1973. It should also be noted that it will be retroactive to April 10 of this year after this or the modified legislation is passed.

It seems appropriate to sound a cautionary note that this tax item is not strictly guaranteed until after the appropriate legislation is passed. Farmers planning to take advantage of this item should check its status before proceeding to incorporate or, I might add, perhaps before dying. In addition, it should be understood that if the cost of the acquisition of the land to a child is greater than the V-day value, capital gains would be due on the difference between the two. In other words, the only way to get complete deferral of the capital gains tax would be if the son or daughter purchased the land at or below the V-day value.

● (1252)

In interpreting clause 14(1) which refers to subsection 70(10)(b) of the Act, Revenue Canada could very well need the wisdom of several Solomons to interpret the key phrase "substantially all of its property". The inference is that the Department of Finance does not want hobby farmers to benefit from the tax deferral provision. On page 20 of the bill the reference to subsection 73(3) of the act states that an heir has to be residing in Canada at the time of transfer in order to qualify for capital gains deferral. I suggest that so long as the heir indicates he is willing to farm in Canada and not be an absentee landlord, it does not really matter where he is living now or has been living.

Clauses 2, 3 and 4 on pages 2 and 3—

The Acting Speaker (Mr. Turner): Order, please. I should like to suggest to the hon. member that he is not supposed to refer to clauses of the bill on second reading but to the principle of the bill.

Mr. Hargrave: Thank you, Mr. Speaker. The particular clause I am referring to now deals with the correction of a

problem of interpretation which was created by the budget of March, 1977. This item permitted a farmer or a small businessman to avoid capital gains tax if he sold his farm or business in order to reinvest in another farm or business by the end of the following taxation year. It seems that the Department of Finance intended a broad interpretation of the phrases "for the same use" and for the same business". Revenue Canada had chosen to enforce a very narrow interpretation that denied this provision to a farmer who had, say, sold a grain farm to reinvest in an irrigated farm producing different crops.

This matter of interpretation has been corrected in Bill C-56. In addition, I received further specific clarification in the Standing Committee on Finance, Trade and Economic Affairs on May 17, as reported in the minutes. I was assured by the minister and his Revenue Canada staff that the phrase now used in this bill "for the same or similar use" will be broadly interpreted for all classes of farms and that these provisions will be retroactive to March 31, 1977, and that they will also apply to incorporated and partnership farm operations.

This is a specific example of lack of consultation and cooperation between two federal departments, the Department of Finance and the Department of Revenue, when the bill was being drafted and implemented. Yesterday's announced amendments to this bill allowing essentially the same capital gains rollover deferrals to small family type businesses that family farms presently enjoy, is a good measure and will be widely supported. My family type business friends were quick to respond to the family farm announcement with the logical question, "Why not us?" It was a valid response and certainly deserved this addition to the package. There will be general support for the fact that the deferral will apply whether the rollover occurs during the taxpayer's lifetime or at death.

Similarly with respect to the amendment announced yesterday, that portion referred to as "allowable business investment loss" is an interesting proposal with which it is difficult to find fault. The obvious comment on this last minute amendment brought before us yesterday must be, "Why did we have to wait until the eleventh hour for the necessary changes that have been so obvious for so long?"

Before leaving this discussion of agricultural tax matters in the bill it seems appropriate to suggest two additional approaches to the Minister of Finance. The first deals with the traditional and inescapable cyclical fluctuations in farm income. The general income tax averaging that is now possible does not adequately deal with the problem, neither does the stabilization approach because it fails to be specific on an individual basis for all agricultural commodities. Let us recognize that the good years have to carry the bad years. In my business that is known quite simply as good, common, cow-sense. In pre-income tax days—certainly in the west—this was the natural and necessary philosophy of every farmer and certainly of every cattleman.

I say to the minister, why not implement a program for bona fide farmers similar to the Registered Retirement Savings