

*Income Tax Act*

members of the opposition are quibbling in this area, since their arguments, if successful, would introduce an unnecessary complication in this field. That is why I cannot support their arguments and I think the bill is correct as set out.

The question of cash versus accrual accounting has been raised. Farmers have always had the right to make a choice in this area. They are in the same position as professional people, who are now required to switch over, except that farmers are not required to switch over. They are retaining the right to use either system so long as they do not switch back and forth. Having made their decision, they must stick with it. A farm group in a presentation argued that farmers should be given the opportunity of entering into some kind of time payment arrangement if they are to switch. That is a reasonable argument, and I think the parliamentary secretary ought to take cognizance of it. Perhaps it is a valid argument to say that if special arrangements are to be made for professional people to switch to an accrual system, the same kind of provision could justifiably be made for farm groups.

An argument was advanced relating to the transfer of assets within the family, that is, the transfer of assets at the time of or prior to death. I think that farmers have a valid argument here, and we ought to pay attention to it. They say that the turnover of the family farm from father to son under the new provisions will result in a deemed capital gain, and that the tax on this gain will have to be paid at once. The argument has been advanced that where a son purchases a farm from the father who takes back and holds the mortgage, the father should be permitted to pay the gains tax as the mortgage payments are received from the son. The further point has been made that incorporation should not be necessary to avoid this heavy taxation.

The concept of the transfer of the farm by way of mortgage arose during the era of the gift tax. Of course, this era is now behind us. The father sold to the son the farm and took back a mortgage which was payable in instalments of the amount of the allowable free limit on gifts each year. He did that in order to avoid the payment of taxes on the transfer. The whole mortgage could be paid off on that basis, if the father lived long enough. However, the gift tax era has gone. That area has been vacated and there is plenty of leeway now for transferring the farm assets from father to son. It could be done, for example, on the basis of transferring one-tenth of the value of the farm each year and paying the gains tax on that proportion on an agreed date. The tax will be paid in small amounts and, if the farmer transferred at the rate of one-tenth of its value each year, the whole property could be transferred to the son without incurring the burden of a massive payment of tax. Of course, an additional factor under the new provisions is this: If the father should die before he has completed the transfer, the remainder would automatically pass to his wife free of tax and the wife could continue the transfer to the son in an orderly way.

The objection might be raised that this method will result in recurring property appraisals. It does not seem to me that an appraisal after the original V-day appraisal would be a difficult or necessarily expensive matter, since over-all increases or decreases in specific items are usual-

ly easily determined in the short run. By this use of the new rules or lack of rules regarding gifting, estate planning would be considerably easier to achieve than under the old, complicated system of annual gifting. If the son is in a position to pay his father for the farm in occasional cash payments, the transfer of the farm does not have to be done at once. It could be done in portions, just as in the gifting process. The farmer could invest such money received in some kind of annuity program. He could invest it in a registered retirement savings plan and benefit from the consequent saving on taxes that that system allows. So, I do not think the situation we face here is nearly as onerous as members of the opposition or farm groups have feared. There are opportunities for the alleviation of the tax burden here and many farm groups have not looked at those opportunities. If they examine them they will see, I submit, that the bill is not unjust to farmers and is supportable as a reasonable piece of legislation.

There is an interesting loophole in the legislation that farm groups ought to look at. It may well arise in the first year following valuation day. If the farmer should decide to give his son the entire farm after the new legislation abolishing gift taxes has come into effect and before much time has elapsed since V-day, the gift should attract little or no tax of any sort under the V-day valuation option for capital gains. In other words, if V-day were to be some day this fall and if the farm were to pass to the son in January of the coming year, the loophole would come into play. The son would pay tax only on the difference between the value on valuation day and the value in January. That amount would be negligible. Farmers ought to look at this interesting loophole. I hope the Minister of Finance does not look at it with a view to plugging it, because there might be an opportunity here for farmers facing certain problems to solve those problems right away. I am trying to say that farm groups and members of the opposition should look at this bill very closely, because it is not nearly as onerous with respect to farmers as has been suggested. A number of areas need correcting and I believe the Minister of Finance is prepared to study them.

I mentioned the matter of cash versus accrual and that farmers should be given the same opportunity as professional people to spread out the cost of switching in this area.

A group appearing here today raised the question of deferred payments with respect to the capital gains tax and the fact that the cutoff proposed would force the breakup of the family holding. May I remind hon. members that this provision, this option for deferring payments, was present in the old gift tax legislation and, in cases of hardship, the minister had the right to allow the deferred payment of taxes of this kind. I suppose that the Minister of Finance will be prepared to make the same kind of concession in the new tax bill. I think that is a reasonable consideration and something that the minister ought to look at thoroughly. I recognize that farmers are in a position different from that of factory earners, the owners of blocks of stock and so on. Farmers own a block of land and, if that were to be broken up at time of death in order that taxes might be paid, the family would suffer real hardship. I think we should make special considera-