

The Budget—Mr. Gleave

a hobby farm if these charges had not been made against the \$5,000 allowed each year. The effect of this will be to reduce the capital gain on the sale of a hobby farm. I do not know why it was considered advisable to do this. In most instances, a hobby farm is run by people whose income is adequate to permit them to have a farm as a hobby. Those of us who are actually in the farming business know that sometimes it can be a fairly expensive hobby, even when you are trying to run a farm to make a living from it. Why this provision is in this bill I cannot understand. It does permit people with that kind of income to set losses against earnings and, at some particular time in the future, to pick them up. At the same time, however, they are enjoying the pleasures and relaxation that come as a result of owning that particular kind of establishment.

When you consider the actual farm operation you find that for some reason or other it was decided to wipe out present provisions that permit the building up of a basic herd. This is important. There may be some reason for these changes in eastern Canada, but I cannot understand what the reasons would be in western Canada. On the one hand, we have the minister in charge of the Wheat Board and the Minister of Agriculture (Mr. Olson) jointly setting up, I think, provisions for increasing the amount of acreage under forage in western Canada and actually offering some inducement by way of an acreage payment for farmers to do this. If you are increasing forage acreage it is obvious that on that forage land you will either graze sheep, dairy cattle or beef cattle. That is the objective of it. I think, certainly, that dairy cattle would not be the objective of those provisions. The objective would be either sheep grazing or beef grazing. I doubt whether the objective is sheep, since the minister has progressively reduced the subsidy for wool. So, you are left with beef cattle.

If that grazing ground is to be occupied, some people have to increase herds. They can only do that by borrowing large amounts of capital to put a herd on the land or by gradually increasing that herd. The basic herd provisions in the act permitted farmers, as their herds increased, to keep that money invested in those herds and there was no necessity of paying tax on it at that time. True, at some point the herd had to be dispersed, so the tax would be recovered on the money at that point. However, I cannot understand why these changes have been made at this time.

It is indicated that there is to be a movement to phase out straight line depreciation as that affects the purchase of farm machinery. Again, I just do not see what they are driving at when they move to phase out straight line depreciation. If you phase out your straight line depreciation and go to the accrual system, a farmer will be allowed a much more rapid depreciation in the early stages. Again, let me point out, we have just come through an extensive and expensive study of the farm machinery industry. The report of that study indicates that it is difficult for farmers to meet the rising cost of farm machinery. One would have thought the government would have reviewed the present situation and present taxation practices affecting farm machinery. It is

[Mr. Gleave.]

true that the farmer, in trading in farm machinery, usually makes a capital gain on that machinery. He does not always, but at times he does. The machinery is traded in and is completely or partially depreciated. I do not understand how the government expects farmers to continue replacing machinery if that gain becomes taxable, because it would mean, in effect, that a gain that had been made would be taxable. The farmer would have to take that money from some other place to meet the tax which is going to be levied. At this time and under these circumstances, I do not see how anyone could arrive at this decision. If the agricultural industry were in a buoyant position, the return on capital were high and incomes were at a high level, such changes may be justifiable but under the present circumstances I do not see the logic behind these moves.

• (3:10 p.m.)

I would like to deal briefly with the matter of taxation of cooperatives. Cooperatives have been an important factor to the farm sector, even more important than to the urban sector. If it were not for the cooperatives, in all likelihood the grain business in western Canada would now be owned by United States companies. As is commonly known, this is the pattern that prevails in the petroleum industry. This past winter there was much ado about Home Oil. This was supposed to be one of the last independents disappearing into the clutches of the American giant. Possibly the members of this House do not realize that there is still one independent in western Canada. It is a cooperative oil company which pumps, refines and distributes oil over a great part of western Canada.

For income tax purposes, the cooperatives have been taxed at a minimum of 3 per cent on employed capital. This provision had no basis in logic that anyone knew. I think it was devised because the cooperatives, by their structure, only kept as much working capital as they needed. The earnings which they did not need, they distributed to the participants who, in terms of this House, may be described as shareholders, but are not actually shareholders in the ordinary corporate sense of the term. I think many of the people who draw these acts do not understand the situation as well as the people who actually receive the dividends from cooperatives each year. From whatever their point of departure might have been the taxation experts arrived at the decision that there must be some way of taxing this money in the hands of the cooperative. They could not find any other way, so they decided to levy a 3 per cent tax on the capital employed.

For a reason known only to themselves, the government has decided to jump this tax from 3 per cent to 5 per cent. This will cause a severe dislocation in the allocation of earnings and investment within the cooperative movement. The decision as to how to reinvest money within the cooperative for the growth of the cooperative will be seriously affected by this new tax pattern. Decisions will have to be made that are not necessarily in the interests of the members of the cooperative, but in line