

*Income Tax Act*

unions agreed with the government I would say they had been brainwashed. The trend should be the other way—

**The Deputy Chairman:** Order, please. I regret to interrupt the hon. member, but I do so to advise him that his time has expired.

**Some hon. Members:** Carry on.

**The Deputy Chairman:** Does the committee agree to allow the hon. member to continue?

**Some hon. Members:** Agreed.

**Some hon. Members:** No.

**The Deputy Chairman:** I hear some negatives; there is not unanimous consent.

**Mr. Horner:** Mr. Chairman, in rising to speak—

**An hon. Member:** Who is winning in Assiniboia, Jack?

**An hon. Member:** Not the Grits.

**Mr. Horner:** I am winning. My wagers have all been well placed. Mr. Chairman, rather than make a speech I should like to ask a question or two to clarify some questions in my mind. Regarding the change in the basic herd concept, could the parliamentary secretary indicate whether I am correct in assuming that this provision was brought about because of the introduction of the capital gains tax? I am referring to section 29 (2).

**Mr. Mahoney:** Yes, Mr. Chairman. It is the view of the government that with the introduction of a capital gains tax the need for the basic herd is greatly reduced or eliminated.

**Mr. Horner:** That is what I thought, and I note that from the point of view of the government the need is eliminated. I have another question with regard to this concept of a basic herd and the capital gains tax. Am I correct in the assumption that the family unit will be encouraged to incorporate in order to assist in the transfer from one generation to another?

**Mr. Mahoney:** That does not necessarily follow. There are some advantages to incorporation now with the estate tax that permits intergenerational transfers perhaps in a smoother way. It may be that this will continue to be desirable, but basically I think the bill is neutral in that respect. I do not think the introduction of capital gains into the tax base can be divorced from the elimination of estate and gift taxes at the federal level.

The net cash result of projections that I have seen would indicate that less tax will be payable in respect of capital gains than in respect of estate taxes unless the farm unit or ranch appreciates in the order of something like 10 per cent a year. At that point you cross over the line to the point where the capital gains inclusion in the tax base may result in more tax than under the present estate tax. On the projections I have seen, this applies to all situations including those in Ontario, Quebec and British Columbia where the current succession duties are presumed to be continuing, to the situation in Alberta where it is assumed that the province will not pick up the federal estate tax that has been relinquished and will not

[Mr. Bigg.]

institute its own, to the situation in Manitoba where we understand the provincial government intends to take up the tax room that the federal government has vacated.

**Mr. Horner:** I have another one or two short questions, Mr. Chairman. The parliamentary secretary has said that the introduction of capital gains should not be divorced from the concept of estate taxes and their removal. Would it be fair to assume that the capital gains tax would not be income declared operative until there had been negotiations with the provinces? This is a very important point because of the vacuum in some of the provinces now—in Ontario, for instance, and Saskatchewan where there has been a change of government and it is my impression that they will introduce an estate tax. Alberta has no estate tax, or in effect is refunding 75 per cent of the present estate taxes.

Would it be fair to suggest that this section not be proceeded with? Can the agricultural industry expect that it will not be proceeded with until there is a general announcement or clarification by the provinces?

**Mr. Mahoney:** The federal government has indicated to those provinces that do not have machinery for the collection of death duties—that is all of the provinces except British Columbia, Quebec and Ontario—that the federal government would be willing to continue to act as collecting agent under certain terms and conditions. However, the federal government has very emphatically and explicitly rejected representations that the tax reform package be deferred until such time as the provincial governments have an opportunity to establish the machinery to enable them to move into this field when they choose.

**Mr. Horner:** Then several months ago, when the minister in his opening remarks suggested that in fact it was the government's intention to do away with the Estate Tax Act and to bring in capital gains and that the one would offset the other, really he was saying that the amount the government would receive from the capital gains tax is only equal to that portion which the federal government received under the Estate Tax Act; in other words, 25 per cent of the Estate Tax Act? Would that be a correct assumption?

• (9:40 p.m.)

**Mr. Mahoney:** Mr. Chairman, the introduction of capital gains into the income tax base is part of income tax reform. The decision to discontinue collection of estate and gift taxes is an independent decision. I joined these subjects together. Certainly they must be taken together when one considers the impact or influence of taxation on intergeneration transfers. Basically, however, the two decisions are independent. I do not think the Minister of Finance ever connected the two in any statement he made, although I have seen them connected in public utterances and press statements.

**Mr. Horner:** Mr. Chairman, I do not want to prolong this discussion but the hon. member a few minutes ago connected the two together and said they could not be divorced. The Minister of Finance said in his budget speech of June 18, I think—I am not certain when he said it but it was in a budget speech—that we are getting out of