

had a value of \$95,000 when the son sold it, perhaps to a neighbour, we find that the capital gain to the son is \$45,000. In other words, farmers are finding out that even though they leave their farms to their sons in their wills, their sons will still be stuck with retroactive valuation day value.

The third misunderstanding is the residence rule which must be met by the farmer's son or daughter. I wonder if the Canadian farmer realizes even today that if he leaves the family farm to his son in his will, and by sheer coincidence that son, at the time of the father's death, happens not to be at that precise moment a resident of Canada, no relief from capital gains tax can be enjoyed even though the son returns home post haste in order to continue the operation of the farm.

The fourth misunderstanding, Mr. Speaker, is crucial. It involves the question of what is a family farm. I suggest that most of us know it as a combination of land and buildings, probably a dwelling house, livestock, equipment, feed, fertilizer and other things. It is the totality of all of these in combination. When we speak of the family farm in relation to its purchase or sale, or in relation to capital gains tax, however, the interpretation is perhaps more narrow. It is considered by most to mean the land and buildings, the real estate: the non-movables, or immovables, if you prefer.

When a farm real estate agent lists a farm for sale he intends to sell, and the prospective purchaser intends to buy, not such things as stock, equipment and other things; he intends to buy the land and buildings. Therefore, Canadian farmers did not pay special heed to the reference in the budget speech to "farm lands," because "farm lands" mean land and buildings. It bothered a few of us though, Mr. Speaker, because it is no secret that the Minister of Finance would not know a cow from a cabbage and could not care less.

It bothered the hon. member for Grey-Simcoe (Mr. Mitges) who in this House, on February 28 last, asked the Minister of Agriculture if this capital gains tax exemption—I should point out that some of us at that time did not appreciate that it was simply a deferral—also included the buildings on the farm, or was it just the land? I remember the question very well, for two reasons. First, I was trying to be recognized by Your Honour on the same day to ask a similar question and, second, before the Minister of Agriculture answered he leaned over and consulted his colleague the Minister of Finance. Even this brief consultation, Mr. Speaker, was so unique and historic that it became branded in our memories. In any event, after this consultation the Minister of Agriculture replied, "It includes the complete farm".

Mr. Speaker, why would any farmer have difficulty understanding this answer? A few might believe that a complete farm includes such things as livestock, equipment and feed. In any event, we were all pretty well satisfied that the tax on land and buildings could at least be deferred except for this. A few of us began receiving strange reports that farm groups such as the Canadian Federation of Agriculture, the National Farmers' Union and the Ontario Federation of Agriculture were not getting firm answers to the questions they had been putting to the minister and officials of his department. Therefore,

### Income Tax Act

the hon. member for Grey-Simcoe wrote to the minister and asked for a specific answer to this question: Does the deferral of capital gains tax apply to both land and buildings? The answer, dated March 9, 1973, included a lot of the usual gobbledygook about parts XI and parts XVII of the act, "deemed disposal," "recipient descendants," and so on. However, one part of the minister's letter is very clear. It reads as follows:

• (2020)

The deferment of capital gains tax does not apply to farm buildings or machinery. There will be no change in the basis for valuing the buildings and machinery.

What are we to believe, Mr. Speaker? What are the farmers of Canada to believe? Are we to believe the minister's answer in this House on February 28 when he said, after consulting the Minister of Finance, that the deferral included the complete farm, or are we to believe what he said a few days later in his letter of March 9, that the deferment of capital gains tax does not apply to farm buildings?

If we believe the minister's letter which indicated that only raw land is considered, then this simply has to be a gigantic hoax perpetrated by the government on the farmers of this nation. Is this government serious in believing that farmers across this country shall secure valuation on land alone? Will the government ask these Canadians to consider a family farm as land alone? The whole proposition is so preposterous that it would be laughable if it were not for its tremendous tax implications.

I listed four points of misunderstanding and concern and I have spent most of my time on the fourth point in the hope that a minister will tell this House just what farm assets are subject to capital gains tax and what farm assets are not.

**Mr. Benjamin:** You can only exclude the wife and the hired man.

**Mr. Jarvis:** Let me return to the first area of misunderstanding, that the parent must die before the tax can be deferred on the passing of the farm to the child. Mr. Speaker, I submit to the House that this is not only unsatisfactory; it is deplorable. Many whose opinion I value share this position. For example, *Farm and Country* magazine published on March 27 a story headed, "Leaving a farm to a son in a will has never been a satisfactory means of transferring the farm from one generation to the other." Let me quote from that story by Lyall MacLachlan. It reads in part:

There have been too many cases where sons have reached their fifties and had nothing for their years of hard work on the farm except a promise of the farm when father was gone. As the years pass by, family relationships often change, as a daughter-in-law and then grandchildren appear on the scene. We all know wills can be changed at any time . . .

Those of us who counsel and help farm families with their transfer programs have been striving to get away from the idea of leaving everything in the will. We urge farmers, depending on their individual circumstances, to start a transfer program as early as possible in their lives and not to depend on their will for transferring the main farm business.

The proposed change in the Income Tax Act will encourage farmers to do the very thing we have been working to change. However, perhaps when the details of the proposal are known, it