

*Income Tax Act*

Canadians, who would have the rights of owners of shares, whether they be in partnerships or corporations in the search for and development of Canadian resources. At one time my party approved, in a hesitating way, a plan for putting a ceiling on such investment. There cannot be a ceiling on the amount of money invested because it is an incentive. Something must be done, and it does not cost the state anything because, unless the incentive were there, the action would not be taken.

That is why I say there is so much poppycock and deluding of the public when the Government of Canada says it has assisted the oil industry through incentives and made financial contributions, perhaps in the billions of dollars, for the development of resources in this country. That is an utter falsehood because, unless that incentive existed in the first place, no action would have been taken and, if no action is taken nothing falls to the government, and nothing is done. People merely sit on their hands or invest their money elsewhere.

The hon. member for Broadview-Greenwood may shake his head all he wants, but no investment takes place. No one in the early years of Canada's oil industry made the trip to Toronto to obtain financing for western oil companies, because it was not even worth the trip. As a former minister of the Alberta government, the hon. member for Bow River can certainly attest to that. As a lawyer in the business, I can say so as well.

**The Deputy Chairman:** Order, please. The time allotted to the hon. member has expired.

**Mr. Mayer:** Mr. Chairman, I would like to refer this evening to Section 69 of the Income Tax Act and its interpretation in terms of small businessmen and farmers. I will pose some questions to the minister in the hope that he will be able to respond. Section 69 of the Income Tax Act is designed to ensure that fair value is applied to transactions which involve gifting, or dealings with people "within arm's length".

In the area of Manitoba which I represent, many families have incorporated their farms for purposes of taxation, estate planning and for dividing up land and farming operations among family members. Many people in my riding have been conducting their businesses on the basis of verbal agreements with the Winnipeg tax office—although I understand that in the cases involving the Regina tax office there was a written interpretation—that for the purposes of taxation rent would not be deemed to be paid by a corporation to an individual when there was no rent money available to be paid. In other words, many farms were incorporated on the basis that the individual would transfer everything he owns to his family corporation except the land, which was kept in his or her name.

These individuals took this course under the impression that for planning purposes it was the proper thing to do and with the knowledge that the transfer of land could have taken place at the time of incorporation without being taxed. However, the tax people have gone back and said that in a case where there has been a poor crop or a poor market, and as a result no rent paid by the corporation to the individual farmer or owner of

the land, for tax purposes the rent must be deemed to have been paid to the individual. This is only one side of the situation.

On the other side of the situation there has been no indication that the tax department will allow that deemed rent, which becomes income to the individual, to be claimed as an expense of the individual's corporation. This has the effect of creating a large income for the individual, but that individual has no means of offsetting that large income with expenses. Also, in a case where there is a low income because of the variability of the farming situation, the farm can suffer a large loss which, in some cases, could more than equal the total real income of the farm.

The tax department must spell out this section in very explicit and straightforward terms. We are dealing with the principle, as it is called by the tax department, of "within arm's length" with regard to family corporations. The tax department must spell out how it intends to handle such corporations.

While I am referring to rent in this case, I could also refer to salaries, interest on shareholders' loans or the situation where one neighbour volunteers his services to another neighbour. In the latter case, the tax department could ask the individual to show this volunteer service as income.

Some notices of reassessment have been sent out, but I understand that, for the time being, the tax department has decided not to proceed. However, it has not decided that it is wrong in principle. It has merely held in abeyance tax collections in these situations. There are two things which should happen. The tax department should clarify the situation so people will know how to govern themselves when they incorporate and, if there is to be any change in policy, people should be given a chance, and the department should not proceed on a retroactive basis. While we do not need five years, we do need more than five days to adjust to new rules.

I would like the minister to clarify any concern he may have with regard to the problem and give his thoughts on this situation in terms of further proceedings by the tax department.

Mr. Chairman, if I cannot get a response from either the Minister of Finance or his parliamentary secretary now, I would like to proceed with other topics, but I would like to have a response now, if possible.

**Mr. MacEachen:** Mr. Chairman, a number of questions have been asked, and at the appropriate time I intend to answer the hon. gentleman and other hon. members, so he can be assured that he will get the information he requests.

**Mr. Mayer:** Mr. Chairman, I will amplify the case which I have made tonight by pointing out some of the problems which can be caused by this situation. It should be clear to the government that there are many farms which incorporate for reasons other than to avoid taxes. As I have said, farmers incorporate for purposes of planning family operations and for estate planning. Thus, this problem can arise on many small