

Private Members' Business

any more. It was basically a way of permitting people to adjust to the capital gains provisions in 1982 and some later budgets.

The five-year block averaging which had been available to farmers and fishermen lasted a bit longer. Although it was announced in the budget of 1982 it officially ended in 1987, which means that the last year most people could use it was 1991.

There are some exceptions to that such as in cases in which taxpayers had such low incomes they did not bother filing a return. That is not considered to be one of the years. If they did not file a return in 1988, for instance, they could go until 1992. If they happened to miss three or four years they might still be eligible to pick up on those last remnants of five-year block averaging simply because they have to use five years when they file on time. These could have high incomes or losses and they could all be averaged out.

We need to look at what the replacements for five-year block averaging were. The block averaging has been replaced with a form of forward averaging. There have been a couple of inventory rule changes that were supposed to pick up the slack for farmers and fishermen. While they are helpful in the short term they do not meet all of the advantages that were there for the five-year block averaging.

There is a mandatory inventory adjustment for people with off farm incomes. This is almost all farmers now. Last year we are told that the average family farm incomes were in the neighbourhood of \$43,000, of which just over \$30,000 came from off farm sources. Therefore on average on farm income was about \$13,000 and roughly \$30,000 came from off farm sources.

It is interesting to note that a lot of economists and government policy makers seem to think that the answer is to move to larger farms so that incomes can be generated from those larger farms. At least that is the theory. The reality is that when we look at the data the larger the farm, the larger the off farm income. It is virtually impossible to generate a family income from farms regardless of the size under the economic conditions that have existed for the last several years in Canada.

The second inventory adjustment program allows bringing in livestock, which seems to be defined by the courts as anything that is a living, sensate being, from rabbits to fish to ostriches and llamas as well as the usual horses, cows, pigs, sheep, et cetera.

Some difficulties with the program have been discovered, since a cash accounting method has been permitted. This is a good thing for most farm operators, especially individual operators who are not incorporated. That method of computing income is still available. It allows some transferring of income from one year to the next by selling in one year but collecting the

money the following year for livestock sales and grains and oilseeds.

This is a possibility in most regions of the country. These provisions do not recognize the fact of wide income variations that were handled under the old five-year block averaging system. It might mitigate a sudden income surge at the end of a year and allow some of that income to be shoved into the following year. It does not take into account the large cyclical changes in prices which are then reflected in huge cyclical changes to income for farmers and fishermen which usually ride for three to five years.

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The five-year averaging provision permitted people to hang in there. Perhaps they would lose money for five years, hoping they would recover in a subsequent five years. This allowed for a shifting of income over the five years and paying the tax accordingly.

The new provision does not permit that kind of flexibility and has provided some real horror stories where the lives of farmers or ranchers are interrupted. They leave an estate which can find itself paying unwarranted amounts of taxes because of the legal work that may not have been done in the proper sequence according to the department of revenue. If step *a* is taken before step *b* the department will double tax.

Paying taxes should not depend on a chance happening initiated unwittingly by so-called professionals acting on behalf of taxpayers or their estates. Rules should be as simple and as clear as is possible. The block averaging is relatively simple in its concept, in that it applies to the total income of the taxpayer and not just the part that exceeded a certain threshold amount. It permits a complete levelling of net incomes over the averaging period, including the offsetting of losses within the period against profits.

Prior to its demise in 1982 block averaging had existed since 1946. It had accomplished a fairly progressive and widespread growth in the economy. It should be used again in the 1990s in recognition of the continued need in our country for the recognition that there is a wide and diverse choice of economic activities that Canadians choose to be engaged in, or are sometimes forced into, which recognizes that some necessary and crucial economic activities have periods of poor returns but that society must permit some recognition through the tax system we continue to need that we need these people for the smooth and efficient working of our society in general.

Most of the groups I have mentioned in regard to tax averaging are not eligible for most of the so-called safety nets that our society takes pride in providing. Most of them are self-employed individuals ineligible for unemployment insurance benefits. Most do not qualify for welfare even though their