

*Income Tax Act*

the fact that banks are reluctant to extend long-term credit to farmers. Hence, there is need for the government-administered Farm Credit Corporation. Thus, it is obvious that in a high cost, moderate risk and low return industry the effects of capital gains would be more disruptive and burdensome than in the case of a low investment, higher return business. I am thinking, for example, of the sort of business that is carried on by members of some other professions.

We will be looking at a situation in which the business of farming will be treated in the same way as any other business, without recognition of the fact that there is something unique about farming and that we must work toward preserving that life style and that way of life. Farmers, owing to the very nature of farming, are unable to accumulate the resources needed to pay capital gains tax. It seems to me, Mr. Speaker, that measures such as those we are considering make little sense at this particular time in Canada's history. To the extent that it is desirable to encourage and retain family farms for social as well as economic reasons, appropriate tax provisions should be made.

The measure of the government's failure to appreciate fully the sociological implications of the effects of the proposed legislation is shown by the fact that the pride and independence of the family farm and small family business have been completely ignored. The farmer's desire to protect his family farm has been ignored completely. In this regard the proposed legislation is better suited to the impersonal world of the giant corporation and multinational which is owned impersonally by many than to the values implicit in the family farm operation.

The Senate committee on banking and commerce, in its preliminary report on proposed tax reform legislation expressed concern about the pressures that have increasingly led to a profound change in the nature and use of farmland. The committee recommended:

—that consideration be given to extending the roll-over provisions to permit land together with any other capital property which is used by an individual in a farming activity to be transferred, either during lifetime or on death, to lineal ascendants or descendants without being subject to capital gains treatment under the deemed realization provisions. This exemption should only be available in those circumstances where the transferee or transferees continue to carry on the farming activities.

I believe that under this tax legislation we should not tax one segment of the economy at levels which it cannot meet. The fact that farmers have been able to stay in business is proof of their ingenuity. I suggest that we should apply here some of that ingenuity shown by the farming community and devise a tax structure that will enable both the Canadian public and the farmers to get a fair return from the agricultural industry. At the same time we must maintain the well-being of the rural economy and the level of food production which the nation requires. Maintaining the rural economy at a satisfactory level is an important consideration.

Just a week or so ago I returned from a trip to the United States. I heard agricultural problems and questions discussed at some length. The Americans, basically, are facing the same kind of problem that we are experiencing. There, farmers are leaving the land, large corporations are moving in to take their place and the entire agricultural industry from the standpoint of the

farmer is just not attractive enough to bring young people into it. I believe that we in Canada must try to tackle the problem. One of the first ways of doing that would be through a fair taxation system which would apply especially to those involved in agriculture.

If I may speak about the basic herd concept, Mr. Speaker, I believe that if the provisions relating to the basic herd are passed as proposed, every farmer engaged in a cow-calf operation in Canada will be adversely affected. So far as I can judge, under the proposed legislation the basic herd concept is being phased out for no valid reason. The Senate Committee on Banking, Trade and Commerce in its report published on November 4, 1971, said:

Your committee is not aware of any reason for not continuing to recognize a permanent herd for what it is, namely, a capital asset.

It continued:

Your committee recommends that provision be made in the proposed legislation for the continued recognition of a farmer's permanent herd as a 'basic herd' and, therefore, as a capital asset.

The House of Commons committee report on the white paper proposals said that since taxation was recommended with regard to the basic capital asset it was necessary to retain the basic herd concept. Under the transitional rules, basic herds which have already been established will continue to be treated as capital assets to the extent that those accrued at the commencement of the new system will not be subject to tax. There can therefore be little point in treating gains occurring thereafter in the same manner as profits on the sale of inventory or stock in trade.

• (5:40 p.m.)

The farmer wishing to acquire a herd or major addition to an existing herd takes money out of his capital. This is only natural. To go on an accrual basis with annual evaluation of the herd is often impractical, and if the farmer is on a cash basis for accounting he will experience a number of years of losses which will not be fully compensated by the averaging provisions. The failure of the government to treat this unique capital asset of the farmer's animals as a form of capital, subject to the same rules as taxation capital can, therefore, be regarded as wholly discriminatory.

I believe the farmer should be permitted to add to his basic herd by putting income into the cost of animals that he has. A young farmer should be permitted to establish a basic herd and to have that expense regarded as his capital investment. This will be a definite advantage to any young farmer interested in raising a cow-calf herd in which he will make the greatest portion of his living. If the present tax proposal is unmodified, the farmer will realize the proceeds of sales as income immediately on disposal of his herd. Farmers who wish to build their herd year by year, reporting the cost of the transitions as income as they do now, will not under the proposed changes be able to enlarge their capital base in animals. It does not take a genius to realize what could happen to the cattle industry if this legislation were adopted.

As I have mentioned before, Mr. Speaker, there is a strong social case to be made for the government's not creating difficulties for families who wish to continue farming. It will be extremely disruptive to a farm business