

*Income Tax*

clause 6. The minister will know that these deal mainly with clause 14(4) with which we will be dealing a little later. The explanatory note refers to the income tax motion which reads as follows:

(5) That for taxation years ending after March 31, 1977, in respect of depreciable property, a taxpayer be required to deduct a terminal loss in the year in which it arises whether or not the taxpayer has a source of income in that year.

Dealing first of all with subclause (3), could the minister indicate to the House what his officials had in mind with this change? Why must a terminal loss be taken in a certain year, irrespective of income in that year? Why is the taxpayer not given the privilege of matching losses with income in an easier approach?

**Mr. Chrétien:** Mr. Chairman, this is a technical deficiency in the existing terminal loss provision in the regulations which threw out the deductible loss whenever a leasehold interest is converted into a full ownership interest. This deficiency is corrected by this amendment. The amendment is related to the changes with respect to terminal losses in clause 14(4). It is applied where a taxpayer who has leasehold interest in a particular property acquires complete ownership of the same property. The amendment provides for transfer of the capital cost and undepreciated capital cost of the leasehold property to the converted property which will be included in a different class.

**Mr. Stevens:** Could the minister tell us why it is felt necessary to have the terminal losses fall in a year, to use the wording of the income tax motion, "whether or not the taxpayer has a source of income in that year". Why has the minister not given some facility to allow the loss to be applied against income in another year?

**Mr. Chrétien:** Technically, if the taxpayer does not have a source of income he is not entitled to the deduction.

**Mr. Stevens:** That is just what I read out, and that is true. That is what the income tax motion says, but I should like a better understanding of why this is the case.

**Mr. Chrétien:** It is because they found a technical deficiency in the act and wanted to correct it.

**Mr. Stevens:** The way the officials seem to approach this is that if somebody ends up not having to pay tax, that is a loophole and it must be plugged. I want to know why the departmental officials felt it necessary to stop the taking of a loss and applying it against income regardless of which year the income was earned. Why discriminate against the person who, perhaps for reasons beyond his control, has to take a transfer loss and has not sufficient income in that year? They say, that is too bad but they cannot apply it to income in future or past years. I think the committee deserves a better answer than just that it was a technical loophole the bureaucracy wanted to fill.

[Mr. Stevens.]

● (1652)

**Mr. Chrétien:** Mr. Chairman, this technical change simply transfers the terminal loss rules from the regulations to the act itself. A terminal loss arises when depreciable property is disposed of for proceeds less than its undepreciated capital cost. The remaining balance, or terminal loss, is deducted from other income in the year. The amendment also ensures that a terminal loss can be claimed by a taxpayer whether or not he still operates the business in which the assets were used. Technically, under the existing act, a terminal loss arising in a year after the business has ceased is not deductible. In fact, what we are doing is making it deductible.

**Mr. Stevens:** Mr. Chairman, I would like to direct another question to the minister. Are you making the terminal loss deductible in a year that the taxpayer has no income, or can he in fact make it deductible against another year—either before or after—in which he does have income?

**Mr. Chrétien:** It can be carried over.

**Mr. Stevens:** Did the minister say the loss can be carried over to a future year?

**Mr. Chrétien:** Yes.

**Mr. Stevens:** Can it be carried back?

**Mr. Chrétien:** One year.

**Mr. Stevens:** How many ahead?

**Mr. Chrétien:** Five.

**Mr. Stevens:** Five years ahead, and one year back?

**Mr. Chrétien:** Yes.

**Mr. Bawden:** On the question of terminal losses, there is a very related remark made by the minister. In his speech on second reading the minister stated, as reported at page 645 of *Hansard*:

For example, any unused commercial loss, any capital loss or investment tax credit of a corporation belonging to a group of corporations will be transferable to another corporation of that same group when there is a merger or a liquidation.

I would like to ask the minister why it is not much simpler. It is available to taxpayers in the United States. It seems that here it is a very complicated way of giving the benefit that is proposed. I have a specific instance in my constituency at the present time where the owner of several small companies is forced to merge these companies to take advantage of this particular opportunity, except that it will cost him \$20,000 in legal and accounting fees to accomplish this fact. I would ask the minister if he is considering, or would consider, enabling companies that have common ownership to file a joint tax return, which would be the same thing.

**Mr. Chrétien:** That is a suggestion which has some merit. I am told we are looking into that already. However, it is extremely complicated to find a good formula for its applica-