

Income Tax Act

a herd situation, he is putting himself outside the context of this amendment.

Mr. Gleave: What does this mean in effect? It says here that farmers may declare that they have kept animals. Let us get back to the start. As I read the clause, the farmer can declare the value of an animal without having sold it. Am I correct, or does this only apply to the selling side and not to the income side?

Mr. Turner (Ottawa-Carleton): He can value his livestock other than the basic herd as a going inventory.

Mr. Gleave: Going into the herd? As he takes them in?

Mr. Turner (Ottawa-Carleton): This is an entirely different situation. This does not apply to animals going into a herd or coming out of a herd. This applies just to livestock, other than animals treated by farmers as part of their basic herds. So, the basic herd provision is not applicable here.

Mr. Gleave: Mr. Chairman, I still have some questions to put to the minister.

The Chairman: I will recognize the hon. member for Saskatoon-Biggar in a moment, but it seems to me he has asked the same question several times, and perhaps with an opportunity to consult the minister or his officials that difficulty could be resolved. Perhaps we can stand the clause until it is resolved. I do not want to hasten the committee but I think we cannot really have repetition of one question. We should try to avoid it.

Mr. Ritchie: Mr. Chairman, I would like to ask the minister a question. Can some farmers who have retained the basic herd also use this?

Mr. Turner (Ottawa-Carleton): Yes, indeed, for animals that are not part of the herd.

Mr. Ritchie: Say a farmer has 20 head of cattle and increased this number by the addition of five head of cattle which have a certain value. Let us assume they are valued at \$300 each. Does he declare an income of \$1,500 for these five animals with which he has increased his herd from 20 to 25?

Mr. Turner (Ottawa-Carleton): If he is increasing the herd from 20 to 25 head of cattle, he comes within the basic herd provisions. If he elects to treat some animals in a different way, as livestock other than the basic herd, then the inventory calculation in this section applies.

Mr. Ritchie: It was my understanding that this provision would not apply to farmers who establish the basic herd after the provisions of the Income Tax Act came into effect, only those who already held the basic herd previously.

Mr. Turner (Ottawa-Carleton): That is right.

Mr. Ritchie: Therefore, we have to assume that on these five animals the farmer would declare an income of \$1,500 although he did not have the cash but only animals worth \$1,500. He would declare this as income for the year as well as what he sold.

[Mr. Turner (Ottawa-Carleton).]

Mr. Turner (Ottawa-Carleton): Yes, he can value those, according to the meaning of this amendment, anywhere between zero and the fair market value of those five animals.

Mr. Ritchie: I would like to ask a question. Let us say the market value of the 20 animals is a certain amount one year. The next year the farmer has 25 animals but their market value has gone down although he has far more animals. Is he deemed to have any income that year? He does not assume any income.

Mr. Turner (Ottawa-Carleton): As I understand it, he can revalue every year.

Mr. Lambert (Edmonton West): Mr. Chairman—

Mr. Gleave: I rise on a point of order, Mr. Chairman.

Mr. Lambert (Edmonton West): I am on the same one. As I take it, the minister's explanation of this matter is that if a farmer had no basic herd or if these animals are supplementary to the basic herd, they are inventory on which tax will be paid because they are taken into the income in that taxation year, and although they are sold the following year those receipts do not become income in the subsequent year, the same way as accounts receivable of the professional such as the doctor or the lawyer who has billed his patient and takes his account, although not collected, into his income and pays tax on it. Be that as it may, it would make it rather difficult, I think.

I am not too sure that there is an option here. Yes, I see there is an option if the taxpayer so elects. Once having elected, does it mean it is his option or choice depending on valuation, and therefore there is a degree of flexibility? Let us assume that we are in this year when animal prices are very high on the market. At the end of the taxation year prices will be at the same level and therefore this will tend to increase the farmer taxpayer's income. He may find himself in a higher tax bracket. The animals that he has now may be sold only some time next year when the market price may have dropped 25 per cent. Then, he will have paid income tax on what is more than the fair market value on the sale of his animals. Is there provision for readjustment between the actual realization and the valuation that the farmer puts on an animal this year at fair market value, or will the taxpayer be committed?

Mr. Turner (Ottawa-Carleton): No, Mr. Chairman.

Mr. Lambert (Edmonton West): Is my simile correct?

Mr. Turner (Ottawa-Carleton): Yes, the hon. member's simile is correct and valuation can be made year by year. He is not held by his previous valuation. The problem is to allow a flexible inventory valuation so that he, in effect, can allocate losses in a future year against an inventory built up, if he chooses.

• (1630)

Mr. Gleave: Mr. Chairman, over a period of time the farmer or rancher could continually build up his cattle herd. I am not referring to the basic herd. I am sorry that came into the discussion, because I very well understand that the basic herd provision was eliminated except for