

Income Tax

Subclause (a) work in progress is defined differently. The other says, "... other than work in progress". Will the Parliamentary Secretary read the section and see that what he has been saying does not make sense at all?

Mr. Fisher: Mr. Chairman, the Hon. Member for Mississauga South is quite correct, I should stop complimenting him, although I find it tempting.

The Section I read before, Section 10(1) defines very clearly the fact that we take either the lower of costs or fair market value.

Mr. Blenkarn: Read the Bill.

Mr. Fisher: And then the Bill defines fair market value in the circumstance of professions. The previous Clause that I read gives you the general context, as I understand it. The professional, for some reason, who has found that the fair market value of his project is now lower than the cost would have to give that figure, but in other circumstances—let us hope it is all circumstances for all professionals—if they find the cost is lower than the fair market value, that is the amount they would use.

What I read to the Hon. Member previously which is already in the Act, sets out the general rule. This sets out the definition of fair market value for a particular professional.

Mr. Blenkarn: Mr. Chairman, fair market value is exactly what we are talking about with respect to professions as now set out in the new Clause 10(4) and the specific definition of work in progress has nothing to do with cost at all. It is what can reasonably be expected to become a receivable.

Mr. Fisher: Lower than the cost.

Mr. Blenkarn: No. It is what can be reasonably expected to become a receivable. Sure it could be lower than the cost. And it could be very very much more than the cost.

Mr. Fisher: In which case it would not be used.

Mr. Blenkarn: In other words, there is no cost value to it. What the Parliamentary Secretary and the Minister and his friends from the Department of Finance do not understand is that a professional is essentially selling ideas. He is not selling anything you can take hold of and walk to the grocery store with. It is ideas. It is doing something entirely different from performing a physical thing that you can actually put down and take away with you. You may say that you can take away the plans of an architect, but incomplete plans are nothing. They are waste paper. That is what they are. When you are talking about waste paper, and that is what this is, what is the cost? It may be the cost of the paper, it may be less than the cost of the paper. You can say it is worth nothing. In order to solve that, you decide to define work in progress as what can reasonably be expected to become a receivable.

To determine reasonableness you have to do it always after the event. It is always after the event, when you look back on the professional's return, that you say "Yes, but you were working on Mr. Smith's new home in November, 1982 and,

therefore, when you bill Mr. Smith in February, 1983, you probably had half the work done by that time and you should have included that half in your 1982 return", but if you look at the situation at December 31 of 1982, you find the architect at that point had half a building designed. Now the design of half a building is not worth a tinker's damn. If the architect had died at that time and gone to heaven or gone to hell, he would not have got anything, not a thing. What you are saying four or six months after the event is, we will come back and look at the bill and say, "Yes, you got \$2,000 for that work. Obviously, you had over half the work done prior to the year-end and obviously you should include half of what you eventually charged in your income for the year". That is what is wrong with what the Government is doing. I do not understand why the Minister and the Parliamentary Secretary cannot see that. Do they not realize for one moment that the work of a professional has absolutely no value, or very little value, until it is actually completed?

Mr. Fisher: I would like to go through the Act as I understand it and list the steps so the Hon. Member for Mississauga south can understand why I keep referring back to one simple principle.

Clause 10(5)(a) says work in progress is inventory. Section 10(1) of the current Act says that the value of inventory is either at the lesser of cost or at fair market value. It is not some speculative thing or some process that is worked backwards in time. If the professional finds, for example, that his fair market value is lower than the costs he has incurred, then he uses the fair market value. We heard the Hon. Member for York North give examples about \$10 worth of paper versus a \$3,000 fair market value. In that cause the \$10 is written off. That is the amount that is involved in the cancellation.

• (1610)

If the Hon. Member would find it useful, I would be happy to read those references to the Act again.

Mr. Blenkarn: Mr. Chairman, I would appreciate it if the Parliamentary Secretary would read Subsection 10(4) of the Act as it stands at the moment and tell me where there is any reference to work in progress in it.

Mr. Fisher: There is not.

Mr. Blenkarn: The fact is that the whole of Subsection 10 makes no reference to the work in progress of a professional. This amendment brings the work in progress of professionals into the Act, however.

Mr. Fisher: Right.

Mr. Blenkarn: And how the value of that work in progress is defined, is contained in the amendment. The amendment has nothing to do with the cost or with the fair market value. The value is to be determined on what can reasonably be expected to be billed. That is what can reasonably be expected to become receivable.