

Income Tax Act

ings in the Maritime provinces, and possibly also in Quebec.

Today, if the farmer sees a chance to sell his farm at a profit, as long as he can convince the tax department that he is not in the real estate business any capital gain he may receive is completely tax free. Throughout a farmer's lifetime he may change his farm three or four times, preferably at a profit. Now, with the price of land going up the way it has over the past 20 years, on every one of those occasions he will have to pay a capital gains tax.

These are some of the salient facts which convince me that the budget does little for the agricultural industry. It is also particularly detrimental to co-operatives and hobby farmers and is of no real benefit under the change in the partnership, capital cost allowances for many of the father and son and brother combinations within the agricultural industry. In my opinion, the most detrimental and devastating feature of the budget with respect to the agricultural industry is the capital gains tax. I believe that for western Canada it is a discriminatory tax and I say that we from western Canada should in no way allow this kind of tax to be placed on our holdings.

Another area I would like to touch on briefly is that of co-operatives and how they are affected by this tax reform legislation. I understand this matter has been covered by a good many hon. members but I would like to touch on it briefly. From letters received and interviews granted, we know that co-operatives are very disturbed by the provisions of clause 135 which retain the requirement that prior to the payment of any patronage refunds, income must be allocated to the capital of co-operatives on the basis of a fixed percentage of "capital employed by the taxpayer at the commencement of the taxation year." This has the effect of severely interfering with the freedom and ability of co-operatives to distribute their earnings as patronage refunds. This required allocation is based on the assumption that co-operatives must have corporate income, although in fact they may not have because the same is regarded as properly payable by the co-ops to their members as patronage refunds.

Co-operatives find the allocation of income to capital unreasonable and illogical and view the "capital employed" concept as a form of discriminatory treatment with no similar provision appearing in the proposed tax act affecting other methods of doing business. Co-operatives have pointed out that with the removal of the exemption from taxation of the income of a newly incorporated co-operative for the first three years of its operation, and with the proposed "capital employed" formula contained in clause 135, which has the effect of reducing patronage refunds, it would be most difficult for new co-operatives to be incorporated to service the needs of their members.

The amendments to the Income Tax Act as they affect credit unions are somewhat similar to those with respect to co-ops. They will be taxed in a manner similar to co-operatives in that a deduction will be allowed in computing income for payments made to members pursuant to "allocations in proportion to borrowing." To qualify for deductions these amounts must be paid in the year or within 12 months of the end of the year. The deduction of these payments may not reduce the corporation's taxable income below the amount by which 5 per cent of members' capital employed exceeds amounts paid by the cor-

poration to its members in respect of the members' shares.

I believe the legislation should be amended so that distinctions can be made between big business co-operatives, which need little or no protection, and small credit unions which need, and often deserve, help or encouragement because they exist to fulfil a need not filled by private enterprise institutions.

This is a rather broad outline of the areas of particular interest to me as they pertain to a good many people not only in western Canada but across the country. I hope that among the 95 amendments which the minister tabled this afternoon there will be some that touch on the points I have raised and clarify them in the minds of many Canadians who are waiting to see exactly what will come out of this taxation legislation.

• (4:50 p.m.)

Mr. Burton: Mr. Chairman, at the outset of my remarks I should like to make particular reference to two areas of concern and interest to me, the question of taxation of co-operatives and of credit unions. I am in the very happy position of being able to commend the government on one score on the basis of the amendments tabled by the minister today. It would appear to me from first examination of the amendment to clause 137 of the bill that the representations by the credit unions have been taken into account in the proposals now presented by the minister. It appears that in fact it will be possible for a credit union to deduct interest or dividends paid on shares from its taxable income. If our interpretation of what is contained in the bill is correct, I am prepared to commend the government for making this change.

It also appears that the government has taken into account some of the concerns of credit unions about the method of computing allowable reserves. At this moment I am not in a position to comment on whether their representations have adequately been taken into account, but since there are changes in the amendments tabled this afternoon I have some hope that this is the case.

With respect to the taxation of co-operatives I am not in as happy a position, at first glance at least. It would appear that some concession has been made to the representations of the co-operative movement, that some allowance has been made in respect of the very real problems pointed out in the submissions made to the Minister of Finance and to members of all parties in this House.

From my first reading of the proposals presented this afternoon it would appear that co-operatives are to be given an alternative. They can either use the 5 per cent "capital employed" formula set out in Bill C-259 or they can use one-third of taxable income as determined on an ordinary corporation basis. It is very difficult to judge the matter at this time—

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

The Deputy Chairman: Order, please. The Parliamentary Secretary to the Minister of Finance is rising on a point of order.

Mr. Mahoney: Mr. Chairman, I think the hon. member would appreciate the information that it is not an alterna-