

Income Tax Act

It goes on to set out the method which most farmers now use, which is to set out the cash income they have taken in during a year, set off against it the cash expenses they have paid out, calculate the depreciation and other things which they are allowed, and file that as a return. At first glance a person would say, "That is very nice; there is not much change there." But, Mr. Chairman, we must look further at what the legislation proposes to do to the basic herd concept. Again at first glance the proposal is that the provisions for a basic herd, which have been optional to the farmer-rancher up until now, will be gradually phased out. But so far as I can determine, no farmer will be able to establish a new basic herd after this legislation comes into effect. Inherent in it is a proposal to phase out the total basic herd concept. The present proposal is nothing more than a transitional operation while the idea of the basic herd concept is being phased out.

• (3:30 p.m.)

It would seem to me, Mr. Chairman, that this means that if the farmer-rancher wants to build any protection into his operation he will have to go on the accrual basis for his basic herd or for his cattle operation. But there is a neat trick in this. It says the proposal is that he must conduct his total operation on the same basis, so that in declaring his income he has to follow through. In a typical operation in which there is a herd of cattle as well as cash crops involved, this means that in order to effectively operate the herd and acquire capital the farmer has to put his grain operation on an accrual basis for purposes of taxation. As soon as he tries that he will be in financial trouble because he will have to take into inventory grain which he cannot sell in the current year and declare it as income. If he has to declare several thousand dollars worth of grain on which he has not actually received any income in that taxation year, then he will have to borrow to pay tax on money which he has not received. He will have to put a value on grain when he does not know what that value will be 12 months hence. We have the situation now where the minister in charge of the Wheat Board says we are going to get this, that or the other; I can tell him how much confidence the people of western Canada and Saskatchewan have in this, that or the other. However, I hope he is right.

I am trying, Mr. Chairman, to describe the situation in which the farmer will find himself as a result of these tax laws and the sad part is that these laws are not necessary. A simple and workable alternative has been offered by the Canadian Federation of Agriculture and the Canadian Cattlemen's Association. Both organizations have asked for a method by which the breeding herd could be considered a capital asset, as is machinery or buildings. Then, the ordinary application of depreciation could apply and the farmer would have the option of the cash or the accrual basis. I seriously suggest to the minister that the proposals now before the House be withdrawn and that people who know something about farming and farm accounting be consulted in order to come up with something that will work. Accountants in Saskatoon who year after year work out the tax payable by individual farmers and farm corporations in the province tell me that the proposed method will be extremely difficult. They feel

[Mr. Gleave.]

that this bill should be withdrawn and a more workable one substituted.

The previous speaker pointed out some of the difficulties in the approach to hobby farming, but that is another matter. What I am concerned about, though, is that we develop a system which is simple and which allows farmers all across western Canada with a gross income ranging from \$10,000 to \$30,000 to easily establish their taxable income, pay their taxes and be done with it with a minimum of expense. This is not being accomplished by this so-called tax reform and the task of completing income tax returns will fall on those least able to cope with it. In some of its aspects this tax measure comes close to being unworkable if, indeed, the objective is to use the taxing authority in such a manner that the individual can continue in operation.

The straight-line basis of depreciation for farm machinery which has been in use is the simplest. In a brief presented to this government on August 30, 1971, the Canadian Federation of Agriculture said:

Our proposal is that a simple single rate of allowable depreciation be applied to all depreciable farm assets—namely, 40 per cent on a diminishing balance basis, and 20 per cent on a straight-line basis, which latter, as noted, we hope you will retain as an option to farmers.

Perhaps some changes are forthcoming. In the case of cattle, hogs and sheep, our objective should be a straight-line depreciation system for the breeding herd because this is simply a capital investment. It takes a lot of time and effort to build the herd and when it is disposed of this is really a disposition of capital, not a disposition of inventory. The difference should be obvious to those responsible for this legislation. In a straight cattle feeder operation, the farmer is dealing with inventory which he holds for a period of time and then sells. A breeding herd of dairy or beef cattle or of hogs is a long-term capital investment through which the farmer hopes to increase his market cattle which will later be sold. I think it is simply a lack of understanding of the kind of business they are dealing with that has led to the creation of the difficulties inherent in the proposals in this reform bill.

Mr. Howard (Okanagan Boundary): Mr. Chairman, I want to say a few words on the subject of farm problems in connection with the bill before us. I listened to a number of arguments on the matters of straight-line depreciation, cash versus accrual, and so on. I think it is worth while discussing some of the points raised by hon. members on the other side of the House, arguments implying that farm groups are unanimous in their opinions on this subject and that all the points which have been made by some farm groups on these subjects are perfectly valid and unchallengeable. I suggest some of them are challengeable. Some of these points are not as strong as some previous speakers have suggested.

• (3:40 p.m.)

For example, the question of straight-line depreciation has been raised. I really cannot see the value of this in a farming situation. If we talk about the depreciation of a piece of farm machinery, that machinery will depreciate a great deal more in the first year than in the tenth year. The farmer should be able to use that extra depreciation which arises in the first few years, and I really think that