

Mr. McKinley: Suppose expenditures of more than \$5,000 a year are incurred in making a farm into a profitable unit, and eventually a profit is generated; will the extra expenditure then be allowed?

Mr. Turner (Ottawa-Carleton): If a farm shows a profit, the person whose principal source of income was not farming would then be allowed every legitimate expenditure because the particular provision would not come into play.

• (2040)

Mr. Howard: Mr. Chairman, I wonder if the minister could give me a little additional information. The words to be added, namely, "without reference to this section and before making any deductions in respect of expenditures described in section 37", are, I gather to be substituted for the words that are now in the section, namely, "otherwise determined", presumably to make the section more precise. The words now in the law, "otherwise determined," obviously include so-called scientific research as enumerated in section 37. However, do these words include anything else? I assume that the words "otherwise determined" may embrace other things. If that is so, what are those other things?

Mr. Turner (Ottawa-Carleton): Section 31 now reads:

Where a taxpayer's chief source of income for a taxation year is neither farming nor a combination of farming and some other source of income—

Under that section he would be entitled to deduct the lesser of the amount by which the aggregate of his losses for the year otherwise determined from all farming businesses carried on by him exceeds the aggregate of his incomes for the year from all farming businesses and the amount derived as a result of the equation contained in subparagraph (b) of the section. So that if the losses attributable to the business of farming exceed \$5,000, he is only allowed the amount of those losses after calculating his income from the farm and calculating his losses. If the losses exceed his income by more than \$5,000, he is only entitled to the maximum of \$5,000 deductible from other income, non-farming income.

Mr. Howard: So what happens now if a person opts to take advantage of section 31(1), the provision we are talking about, and that person is engaged in scientific research?

Mr. Turner (Ottawa-Carleton): That is the point of the amendment, Mr. Chairman. If a person undertakes scientific research now—agricultural research, obviously—then the capital expenditures incurred are part of his total expenditures and his loss deduction is still limited to a total of \$5,000. He may have spent \$15,000 on legitimate agricultural research and he may have another \$15,000 expenses for his farm, a total of \$30,000. If his income is \$10,000, his loss is \$20,000. But he only gets at the moment the maximum of \$5,000, despite the fact that his agricultural research cost him \$15,000. Under this amendment he gets the entitlement of \$5,000 on his losses, plus his \$15,000 expended on agricultural research.

Mr. Howard: But, Mr. Chairman, it does not relate only to agricultural research; the provision relates to the whole

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range of scientific research set out in section 37. If we were talking in this amendment of research conducted on a farm for agricultural purposes that would accrue to the advantage of agriculture, then I would buy it. But we are not. What we are talking about is every conceivable crackpot with some bent for scientific research and who has the money to buy a hobby farm and engage in such research. If this is the case, then I would suggest to the minister that he consider holding this clause until we can take a little more time to look at it and see whether we can nail it down in the way I should like to see it nailed down, namely, to agricultural research that accrues to the benefit of agriculture in a general way.

The Assistant Deputy Chairman: Shall the clause carry?

Mr. Gleave: No, Mr. Chairman. I think some of the matters that have been raised must be adequately answered. These proposals are not clearly defined. As my hon. friend from Skeena has just said, this provision is an open invitation to any—to use his words—crackpot who wants to spend some money on a hobby. Since the question has not been answered by the minister, I think we should stand this clause.

These changes have wiped out the old-style concept of the hobby farmer who is tied to his farm. This is the chap who ran a farm, the operations of which were not self-supporting so he also got a job to see him through until he built up his farm. That concept has now disappeared and we are creating a special category which we loosely label "scientific." In our general approach to scientific research in agriculture we have been moving away, as I said a minute ago, from that concept and concentrating on research in universities and research institutions. I would oppose any suggestion that we free taxpayers' money for this sort of thing. I wonder whether the minister would stand the clause so we could look it over, as suggested by the hon. member for Skeena.

Mr. Turner (Ottawa-Carleton): Mr. Chairman, I have a little more confidence in the individual than the hon. gentleman has. Section 37(1) provides as follows:

There may be deducted in computing the income for a taxation year of a taxpayer who carried on a business in Canada and made expenditures in respect of scientific research in the year the amount by which the aggregate of

(a) all expenditures of a current nature made in Canada in the year

(i) on scientific research related to the business and directly undertaken by or on behalf of the taxpayer . . .

exceeds the aggregate of amounts paid to him in the year under an Appropriation Act and on terms and conditions described in paragraph (c).

The taxpayer is entitled to a deduction for scientific research anyway.

Mr. Lambert (Edmonton West): Related to the business.

Mr. Turner (Ottawa-Carleton): Related to the business. What we are doing here is allowing the same deduction to be added to the \$5,000 deduction that he has if he is not in the business of farming. So there is nothing radically new here. We are just trying to recognize the impetus given by the Income Tax Act now to encourage individuals in this