

Member, as well as other Members of his Party, have accused the Government of rushing legislation through when it is sometimes before the House for days, weeks and months. Today they want the Bill through without any debate. I find it very, very strange.

I am sure the Hon. Member for Fraser Valley West has very good intentions to present a Bill to find ways and means to pay less tax on income. This is quite typical of Members opposite. It is a wonder that they have not included in the motion all sections of the Income Tax Act which deal with collecting taxes. However, they cannot have it both ways. You cannot talk of reducing deficits and not collecting taxes and lowering the Government's revenues.

Individuals engaged in farming activity are placed in one of three categories under the Income Tax Act for the purposes of determining the extent to which farming losses may be deducted from other sources of income. Full-time farmers for whom farming may reasonably be expected to provide the bulk of income, or the centre of work routine, are unrestricted in their eligibility to deduct losses fully. At the other extreme is the person who engages in minimal farming or peripheral activity and who has no reasonable expectation of a profit. Any farming losses sustained by such individuals are not deductible. This is because the activity is a personal endeavour and is a hobby and not a business. This hobby criterion applies to all activities and not only to farming.

● (1740)

Individuals in the third category do not look to farming or to farming and some subordinate source of income for their livelihood, but carry on a farming business as a sideline. Such secondary farmers are restricted under Section 31 of the Income Tax Act which imposes a \$5,000 annual limit on the deduction of farm losses against other income.

However, all farmers including those farmers who have a restricted farm loss, can carry losses back for three years and forward for ten years so that these losses can be deducted from farm income earned over this period. These more generous carry-over provisions were introduced in the April, 1983 Budget. Previously, farm losses could be carried back only one year and forward only five years. Hence, the restricted farm losses of such farmers are not lost if in fact the farming operation is profitable over this period.

The purpose of Section 31 is to set up a flexible boundary between the person who carries on farming activities for personal enjoyment and the genuine farmer. This boundary is essential to restrict access to the very generous incentive provisions available to farmers, particularly the ability to use cash accounting methods. Repealing Section 31 would make it administratively more difficult for Revenue Canada to distinguish between genuine farmers and those engaging in farming as a leisure activity.

Section 31 has been a controversial provision of the Act and has attracted a great deal of criticism. Arguments have been made that there is a feeling in the agricultural community that the restricted farm loss rules are discriminatory since they do

Income Tax Act

not exist for other forms of business. Most typically, it is argued that Section 31 limits access to farming since it restricts the extent to which losses sustained in the early stages may be written off against other income and hence impedes the transition from part-time to full-time farming. It is also commonly argued that Section 31 imposes a hardship on bona fide farmers who temporarily take off-farm work during periods of poor farming conditions and who occasionally find themselves restricted by the provision.

Because of the controversy surrounding Section 31, the ramifications of the existence of the provision have been subject to extensive analysis in the Department of Finance. Although the arguments put forth are of concern, extensive research indicates that it is by no means obvious that repeal of the Section or an increase in the annual limit would remedy existing problems.

Mr. Wenman: It would help.

Mr. Ethier: It would not remedy the existing problems. In fact, such actions might create major problems within the legitimate farming sector. Data indicate that the vast majority of individuals restricted by the provision have very low gross farm sales, typically less than \$5,000 annually, and high average off-farm income. Furthermore, a large percentage of those who would be affected by the provision habitually report farming losses year after year.

The U.S. experience, as well as available data for Canada, suggests that removal or extension of the limits would make farming even more attractive to individuals whose main interest in farming was primarily the speculative and tax write-off possibilities available. In fact, a large portion of the agricultural sector in the U.S. has argued vociferously for tightening up of liberal loss write-off provisions already in existence there.

It has been argued by many agricultural economists in the U.S. that the existing situation has forced up the price of agricultural land, thus making expansion and entry difficult and has reduced product prices. It is also argued that rates of return in farming have been lowered by the influx of speculative capital to the point where legitimate farmers find it difficult to make a living.

In summary, there is need for the restricted farm loss provision. Farmers receive generous incentives, most particularly the ability to use the cash accounting method for tax purposes. It is important to restrict these provisions to full-time farmers and to prevent non-farmers from gaining unintended access to these incentives. Such access is undesirable as it adversely affects the economic conditions facing the genuine farmer.

The Government is very concerned to see that the restricted farm loss provision does not apply to genuine farmers. This provision is being reviewed to seek ways to prevent such genuine farmers from ever being affected by the restricted farm loss rules. At the same time, the Government is anxious to ensure that the generous tax incentives available to the agricultural community are properly targeted at those for whom they were intended.