

Income Tax

acquisition has to precede the sale. I do not think one has to go to a bank in order to carry out such a transaction. A piece of property may go on the market and it may have to be bought before the sale of the property already owned.

● (1622)

Mr. Chrétien: In order to qualify, the properties must be real property and replacement must be effected before the end of the year following the year of the sale. So the purchaser has to acquire in the year after he made the sale.

Mr. Munro (Esquimalt-Saanich): Is the minister saying that the period is not two years, as I understood at one time, but only 12 months?

An hon. Member: It could be nearly two years.

Mr. Chrétien: Under the present rule regarding roll-over treatment, the replacement assets are to be acquired within two years.

Mr. Munro (Esquimalt-Saanich): Then if it is a matter of a sale and an acquisition, does it matter which operation takes place first?

Mr. Chrétien: I understand that a person could buy before selling. Obviously, it would be before the sale, so it would be even better for him than if he had to wait. So he has one year after acquisition.

Mr. Munro (Esquimalt-Saanich): One year after the acquisition in order to determine the amount which might be considered as the capital gain?

Mr. Peters: That is not true.

Mr. Munro (Esquimalt-Saanich): There seems to be some doubt about that aspect of the operation. I am not trying to cause puzzlement; I am trying to clear things up for an accountant who is advising a client in my riding as to the best way of dealing with this matter, so that he may determine whether he should proceed now with either a sale or an acquisition. There is one further cloudy issue in my mind along with these others. I do hope I am clarifying these issues.

Mr. Chrétien: Perhaps the hon. member would allow me to read a statement which I have before me. It will probably clarify this complex question. I can understand that it is difficult for everybody, even for me, to understand this complex question clearly. This is an important change. It expands the tax deferral, commonly called the roll-over, on certain dispositions of appreciable property. When a depreciable asset is disposed of for proceeds which exceed its unappreciated capital cost, the recapture of the depreciation allowed in previous years may occur. The special roll-over rule eliminates its recapture to the extent that the proceeds are reinvested in a replacement property. Under a roll-over, the property is not exempted; the tax is simply deferred until the replacement property is disposed of.

[Mr. Munro (Esquimalt-Saanich).]

Mr. Munro (Esquimalt-Saanich): I thank the minister for that clarification. It is on the record now and I leave it to the accountant to interpret it. The first of my final two questions in this area is this. Suppose by some chance the farmer in question should decide to obtain a property which will cost him more than the property he now holds, as a replacement property, because he needs more pasturage or a greater extent of hay meadows than he holds on his current property. He can get it, say, because it is in an area where the unit land cost is less expensive than his existing land. Suppose he obtains his larger property at a smaller unit cost than he sells the old property. In that case his apparent capital gain could be large. Is it, then, a legitimate capital gain? Does he have to make a capital gain on the basis of acre for acre, or is the capital gain just the difference in what he nets from the proceeds of the total sale as against the acquisition of the new property?

Mr. Chrétien: There is another clause which deals with capital gains. We are talking about a completely different problem here. When we get to clause 13(4)(1) the hon. member probably will get the explanation he wants. We will be coming to that clause later on.

Mr. Peters: Yesterday, Mr. Chairman, the hon. member for Moncton made the very true statement that maybe members of parliament should give consideration to scrapping the whole act, starting over again with language that the minister, the officials and others can understand. If we are here to make laws just for the lawyers, then we have done a great job. Most of the discussion which has taken place on the clause we are considering does not refer to anything which is in the bill. The bill does not even mention the insulation program. There is a clause which says that the provisions of another program outside the bill will be allowed to be taxed and outlines the manner in which it is to be taxed.

If the minister were smart, and he is, and if he were interested, which he may be, then he would consider scrapping the kind of legislation before us and would be concerned with writing simple legislation which says exactly what it means. I think it would do a great service to the country and it would certainly save people a lot of legal fees. It would save us trying to understand a lot of jargon, and it would save us having to ask a lot of questions, if the legislation were in language which you could read and understand.

I was interested in the argument which took place about the insulation program. That is dealt with in clause 6. The arguments which took place were mainly over two points. For the first time, the present minister has done a very good job in relating the grant to income tax. He said that a flat amount would not be given, but that the amount allowed would be taxed. This would result in equality between the low end and the high end. Normally, when we give tax exemptions under the heading of personal income tax we provide a big benefit to the high income earners and very little benefit to those in the low income range. Often this goes further than meets the eye. It may result in a substantial reduction of the total tax the taxpayer is paying. It may place him in another category and