

Income Tax Act

the government will give some consideration to this matter, and consider some further amendments to the bill.

There is another item I would like to deal with which comes within the scope of sections 28 to 31. It has to do with the government's proposal to phase out the basic herd provisions in the Income Tax Act. It would appear that this is an attempt to encourage farmers to move to an accrual system of accounting for tax purposes. The government's present proposal with respect to the basic herd amounts to no more than a transitional provision before phasing out the operation altogether.

The Canadian Federation of Agriculture has proposed that a breeding herd be treated as a capital asset, and that the taxable income from the sale of an animal from the herd would be the difference between the selling price and some other definition of price that might be determined. It seems to me there are a number of serious problems we have to consider in this regard.

In discussing this problem, the Canadian Federation of Agriculture stated as follows, in a submission to the government at the end of August:

The basic issue is this: there is a real, valid need to have some system by which the farmer can treat his capital investment in livestock as a capital investment. Consider for example the problem of the farmer who wishes to take money out of capital to acquire a herd or a major addition to an existing herd. From his standpoint he now has a capital asset which cannot be depreciated. His cost of acquisition of the cattle is an expense to him if he is on a cash basis of accounting, giving him a number of years of severe losses that will not be corrected by the five-year averaging provision. To go on an accrual basis with annual valuation of the herd is often impractical and undesirable. A much better answer is to establish a basic herd.

The same consideration in a less extreme way applies to farmers who wish to build up their herd year by year, reporting the cost of acquisition as income and enlarging their capital base of animals.

If this is not provided for, the farmer builds up a large sum which will be realized as income immediately on dispersal of the herd.

The Canadian Federation of Agriculture also pointed out:

To phase out the basic herd will have the mischievous side effect of weakening the capital structures of thousands of farming operations without producing a significant gain in tax revenues.

That is a point that might be considered by the government when it is taking a look at this matter. The Federation also stated:

—the recognition of the basic herd as capital has validity, and there is no reason why proceeds of dispersal should not be assessed by treating the gain on disposal over initial cost on valuation day value as a capital gain rather than as ordinary income, and tax levied accordingly on only half of such gain.

There are three basic points that might be made when we are examining this. First of all, I point out that the government has stated publicly on a number of occasions that it is taking a look at the whole area of capital cost allowances, the whole manner in which depreciation is to be treated in tax law. In fact, we may expect to have some further word from the government on this in due course. Why could not this provision with respect to the basic herd be deferred until the government is conducting its examination of the whole area of capital cost allowances and depreciation?

The second point that needs to be considered when looking at the basic herd proposition is that it would seem

the government is phasing out the basic herd concept partly as the result of its introducing a capital gains provision into the income tax law, with one half of the rate of tax to come into effect. This presents a real problem. If you are going to treat the basic herd as a capital asset, on which capital loss or gain may apply, then it seems to me you are treating that asset differently from the capital assets of other businesses.

Make no mistake about it, Mr. Chairman. To the farmer his basic herd, his breeding herd, is a capital asset. It is part of his capital equipment. Certainly, some of the mechanisms of the situation are somewhat different from those which apply in other areas of business. In the case of a particular type of large machine, let us say a printing press or large lathe, to which capital gains or losses apply, the tax will be applied at half rate. But in the case of a farmer's breeding herd it will be treated differently, as a matter of income and expenses. I submit that the government cannot allow this type of discrimination to exist in tax law.

There is another point that must be considered. It has been made clear by many people, and indeed I believe the government has asserted this on a number of occasions, that one of the shifts that must take place in the Canadian agricultural industry is an increase in livestock production. This is necessary if we are to make adjustments and changes in the Canadian farming industry. The manner in which we treat this matter will have an important influence on other government programs designed to encourage livestock production. If this provision is allowed to pass into law as it now stands, it will discourage farmers from going into livestock production when in fact the government should be encouraging them to enter this field. Thus, if the government fails to make any changes they will be in conflict with other government programs.

• (4:50 p.m.)

Before I sit down, Mr. Chairman, there is one further point which needs to be emphasized.

The Deputy Chairman: Order, please. I regret to interrupt the hon. member but I do so to tell him that his time has expired.

Some hon. Members: Carry on.

The Deputy Chairman: The hon. parliamentary secretary knows that this can only be done by unanimous consent. Is there unanimous consent for the hon. member for Regina East to complete his remarks?

Some hon. Members: Yes.

Some hon. Members: No.

An hon. Member: Might as well.

The Deputy Chairman: The Chair has heard some negatives, so it will not be possible to permit the hon. member to continue.

Mr. Burton: I take note of the place from which the "no" came.

The Deputy Chairman: It is my duty, pursuant to Standing Order 40, to inform the House that the questions to be