

*Income Tax Act*

I also believe, Mr. Chairman, that it should not be necessary for the purposes of using the \$1,000 per annum option for the sale of the farm to include the sale of the principal residence. Many farmers will, on retirement, wish to retain their homes. While the exemption for the \$1,000 per year as applied to principal residence is desirable, it appears to be an attempt to treat the farmer in the same manner as a city dweller who is exempt from all capital gains on his principal residence.

Another provision that I think should be made in the legislation relates to the sale of a part of a farmer's land. As I read the bill, it would not be possible, unless under expropriation, for a farmer to sell land and reinvest the proceeds in the same or another farm without realization and taxation of capital gains. There are many circumstances when a reorganization of the farm business requires disposal of land and purchase of either other land or depreciable assets for the farm business. This is particularly important for a farmer who wishes to change to production of another agricultural product, such as a prairie wheat farmer who starts into cattle, hogs, or poultry. Public policy has in recent years emphasized the necessity of farmers to adapt their productions to market conditions. The capital gains tax provision now proposed would introduce a necessary rigidity. There should be no realization of capital gains on such reinvestment. This will be a real problem for many farmers and we request that it be taken into account.

Also, I would like to point out that for persons who do not need to invest their capital gains in their own enterprises, the annuity arrangement permits extensive averaging. The farmer who wishes to reinvest in farming should have the corresponding option I have suggested. There will also be many cases where the farmer will suffer capital losses on disposal of property. If he is faced at that time with new investment in the reorganization of his business, the backward averaging provision may be of little use to him, or unavailable. I recommend that in such cases a forward averaging over a period of years be provided for the farmer.

These, Mr. Chairman, are basically the areas where I find amendments should be made to the legislation. The transfer of a farm within a family, whether by sale or by inheritance, without the realization of capital gains is probably the most important area to be dealt with. I think it is absolutely necessary that the government take another look at this area because, as I have mentioned before, the family farm is a special problem in relation to other segments of our society. The \$1,000 exemption for the principal residence should be amended to include farm corporations because they are becoming increasingly more numerous and are very much a part of modern day farming.

To conclude my remarks, Mr. Chairman, I do not believe that the points I have made are entirely beyond realization or would be unacceptable for the government to bring in as amendments to the tax legislation. As I tried to stress earlier, farming, because of its very nature, is unique when compared to a great many other businesses and it should be treated as such in any taxation proposals that are brought forward.

[Mr. Murta.]

**Some hon. Members:** Hear, hear!

• (4:50 p.m.)

**Mr. Thomson:** Mr. Chairman, I should like to ask the parliamentary secretary a question having to do with the depreciation allowances with respect to farm machinery. When I have done so I should like to make a comment or two on that item. I understand that under the new act what might be called a capital gain arising from the trade-in of capital equipment will be taken directly into a farmers' income.

**Mr. Mahoney:** I am sorry. Is the hon. member speaking about the present bill or the existing act?

**Mr. Thomson:** I am referring to the legislation before us. Will the residual value of a piece of farm machinery, when it is traded in, be taken directly into farm income, and not considered to be a capital gain?

**Mr. Mahoney:** To the extent that it constitutes recaptured depreciation, it is income. The only way in which capital gains would arise would be if a farmer were fortunate enough to sell a piece of machinery for more than he originally paid for it, the item of equipment having been acquired after the system comes into effect.

**Mr. Thomson:** I am still not clear about the position, but if I am in error, I hope the minister will correct me. The present system of dealing in farm machinery appears, now, to be out of line, in the sense that machinery companies allow a big mark-up in the value of pieces of farm machinery traded in near the end of the depreciation period. Then, the farmer has to pay what might be called an outrageous price for the new machine. Neither price reflects the true value of the equipment. It seems to me that if my understanding of the hon. gentleman's reply is correct, there would need to be a considerable adjustment of the mechanism now operating in the farm machinery market. Take, for instance, a combine which sells for \$10,500. A farmer wishing to buy it will get a \$5,000 trade on an old combine of his which is worth only \$2,000.

I telephoned a farm machinery company to ask what their procedure was and they indicated they were already responding to the new situation by giving a cash discount and placing a truer value on the used machine. I am really wondering whether the depreciation schedule as now set up should be allowed at all. If a farmer is allowed to take a figure for depreciation of \$10,000 when the value of his equipment is only \$7,500, then the assumption with which we have begun is an unreasonable one. Possibly the parliamentary secretary would care to comment about this aspect in a moment or two, but it appears to me the whole system will have to be changed. The present situation illustrates the way in which systems are built up when the rules are one way. If the rules are changed, something different has to be done.

I should like to make a few comments, now, on another difficulty which arises with respect of the imposition of a capital gains tax on farm land. The last speaker pointed out that the administration of laws of this kind is extremely difficult. I have in mind problems which have arisen in connection with estate tax in the past. Perhaps these arose not because the estate tax in itself was so much out of line as because the people administering it did a poor job, in