

Income Tax Act

established. It is the argument of beef producers, and I agree with it, that enlightened tax legislation should provide for the definition of a breeding herd as a capital asset. I think we first have to decide whether or not it is right to define a breeding herd as a capital asset. It takes many years to amass a breeding herd. A breeding herd of livestock is analogous to machines in a factory. In the case of the beef breeding herd, the product is calves which are either fed for slaughter or returned to a breeding herd for the production of more cattle. So cows wear out as do machines in the factory.

Let us consider why the loss of the basic herd provision would be such a disaster and would cause considerable difficulties to livestock farmers in increasing their herds as rapidly as they can, more so than at present. I think the old adage is well established, that farmers live poor and die rich. This will be made worse by the loss of the basic herd provision. Let us consider the reasons for this. Obviously, during the early years of establishment of a breeding herd the farmer will have many expenses and little or no income. He will have the cost of buying his cattle, he will have to retain as many as he can and he will have very little income.

He can have a five-year averaging provision, but at the end of the five years he will not be much further ahead than when he started. In the second five years, again he will not be further ahead. During these years, in many cases the farmer may not even be able to fully utilize his personal exemption. Apart from that, he may not have been able to pay into the Canada Pension Plan. Although we hear of citizens who are working very hard and who are useful contributors, they are classified as being poverty stricken because they will not be able to contribute to the Canada Pension Plan.

Thus it can be seen that this tax legislation would mitigate against the satisfactory growth of newly-established breeding herds. This means that the farmer will have to build up his herd over a longer period of time. He will be obliged to sell his heifers in order to generate sufficient income to partially offset his legitimate expenses. During the years of large sales of cattle from the breeding herd, or in fact at dissolution, a high rate of taxation would apply. Also, it would be quite normal for large sales or dissolution to occur in years of lower than normal expense. In other words, almost certainly at some time in his life he will be faced with abnormally heavy taxes.

The Assistant Deputy Chairman: Order, please. The time allotted to the hon. member has expired.

Mr. Blair: Mr. Chairman, one of the sections of the income tax legislation which causes an undue amount of alarm and concern in my constituency is section 31. This deals with the disposition of a taxpayer's income where the chief source of income is not from a farm and where he may in various years have farming losses to charge off against his income. The rulings that have been made with regard to a number of people in this position in my constituency have caused me great distress. In my opinion, the Department of National Revenue has chosen to apply a narrow and restrictive definition to what is the business of farming—

[Mr. Ritchie.]

Mr. Gleave: I am glad to have your support.

• (10:40 p.m.)

Mr. Blair: —with the result that unless a person is a farmer in a large way, or unless he is a farmer who has actually earned a profit in a given year, there seems to be a disposition in the Department of National Revenue to disregard him entirely as a person who is engaged in the business of farming.

I have several examples, unhappily, that come to mind. I know of a man who is a retired serviceman, who has a relatively small pension and who is trying to establish himself as a farmer. He has no great capital resources and as a consequence has had to build up his operation slowly over the years. He has experienced losses, but there is no question that he devotes himself almost entirely to the conduct of his farming operation. Yet because he has not prospered at it immediately, he has been told that he is not sufficiently in the business of farming to qualify for the privilege of deducting the losses from his farming operation from his other income.

I know of another case where a young couple would like nothing better in this world than to establish themselves as large farmers on a prosperous farm, but they have not the capital resources which would entitle them to do that, with the result that the husband has another job and practically every dollar the family earns is devoted to building up the family farm. The financial results of their farming enterprise have not been spectacular to date, but from what they have accomplished I would judge that over a period of time they are likely to accomplish their purpose. In circumstances like these I would suggest it is greatly in the national interest that they should be encouraged. But, again, because they have not prospered, because they have not a great herd of cattle, because they have not a huge collection of farming machinery, the revenue department has determined that they are not engaged in the business of farming and therefore has ruled against the deductibility of the losses of their farming operation from their other income.

I have made many submissions in the course of the last few years against these rulings. This has always resulted in the repetition to me of the various definition sections of the Income Tax Act—the definitions of what is a business and what is farming. If these were wealthy people I am quite sure they would have the opportunity to exercise their right to challenge these rulings in the courts. But it is very difficult to advise people in marginal positions like this to embark on costly litigation and, as it were, to make themselves legal guinea pigs in order to determine whether or not a precise and correct definition is being applied to the words of the statute.

So far as I can see there is no great change in the pattern of these statutory provisions in the new bill, but I hopefully ask the parliamentary secretary whether there are any changes and whether it is intended that the same course of interpretation and administration will apply under the new act. I express the hope that it will not and that the administration of this statute from now on will make a division between that fortunate group in the community whom we have traditionally called hobby farmers, and on account of whom these restrictive provisions were initially put in, and the other group, the bona fide, small,