action. The taxes that they must impose will in the end place an even greater burden on the taxpayers of Nova Scotia since, as the hon. member just said, the same people, in the final analysis, pay taxes to both the federal and the provincial government.

Mr. Mahoney: Mr. Chairman, there was no undertaking to the provinces with respect to the revenues that they might lose as a result of the federal government's discontinuing the collection of estate taxes and paying 75 per cent of those to the provinces. There was a revenue guarantee—I think the hon. member will appreciate that the federal government retained all the gift taxes and that these were not shared with the provinces—with respect to the income tax the provincial governments might lose as a result of the very substantial reduction in income tax that is involved in the tax reform package.

• (5:50 p.m.)

The revenue guarantee was initially offered for three years, which was subsequently extended to five years, and provided that no province which chose to conform its system to the system we are proposing and have the federal government continue to collect income tax as we do under the present system, would lose any income tax revenue as a result, provided that the rates of income tax they impose do not exceed a formula based on their existing rates of taxation. Subject to modifications, that formula is a factor of 30.5 as the numerator and 28 as the denominator applied to the existing provincial tax rates.

In the case of a province such as Ontario which levies a tax of 28 per cent of the federal tax, that figure would now become 30.5 per cent. In the case of a province such as Manitoba which has a current income tax rate of 39 per cent, the figure would be higher; I believe it would be 42.5 or 43 per cent. It is an arithmetical calculation which the hon. member can make. I reiterate, there was no undertaking with regard to lost revenues in so far as estate tax is concerned.

Mr. Flemming: Mr. Chairman, I wish to direct one more question to the parliamentary secretary. If, for example, the province of New Brunswick goes into the succession duty or gift tax fields vacated by the federal government, would it not be proper to say that the taxation in that province will be increased by the amount of the capital gains tax?

Mr. Mahoney: Not necessarily. Indeed, it probably would not because the federal taxation in that province would be significantly reduced because of the reduction in personal income tax that would also be involved in the province.

Mr. Stewart (Marquette): Mr. Chairman, I believe that all aspects of capital gains tax as it applies to agriculture should be withdrawn from this legislation. When the Minister of Finance originally introduced the white paper there were many protests with regard to the proposed increases in estate taxes. I was pleased when the minister withdrew these proposals and announced that the federal government was withdrawing from the estate tax field. However, with these proposals on capital gains, plus the fact that in Manitoba the NDP government wants to introduce a provincial estate tax, the farmer will definitely face double taxation. It could well mean the end of the family farm.

[Mr. Crouse.]

An hon. Member: This would only affect the people of south Winnipeg.

Mr. Stewart (Marquette): An hon. member to my left said it will only affect the people in south Winnipeg. However, judging by the statements that have been made by the Manitoba government I am sure it will get to the family farm as we know it. The Premier of Manitoba announced that the provincial government's loss will be $5 million which will have to be recovered by their share of estate taxes. Last year the Department of National Revenue in Manitoba collected $2,900,000 in estate taxes. Manitoba received three quarters of this, in the neighbourhood of $2 million. The government of Manitoba will need a very healthy estate tax plan if they intend to collect this $5 million.

At this time the family farm needs every possible encouragement if it is to survive. It is vital to our rural areas. It balances the whole economy, particularly in western Canada. In my view the biggest blow to the farmer will be capital gains on recaptured depreciation. I was in the farm implement business for 15 years and I have some very strong opinions on this subject. I wish to give some examples of how recaptured depreciation will affect our farmers in respect of all types of equipment. For example, I will use a popular make of tractor such as the model 4020 John Deere. This tractor has been on the market for seven years. As a rule a farmer will have it fully depreciated. However, because of the high price of new farm machinery, when he decides to sell this tractor it will still sell for between $6,000 and $7,000. The farmer must show this amount as recaptured depreciation. Under the present proposals, 50 per cent of this amount must be shown as taxable income on his next year's tax return. This is really just a book figure. We all know of the shortage of cash at this time in most rural areas of Canada. Members can check the value of all makes of tractors. I have used the John Deere 4020 as an example.

Another example is the Super 92 Massey-Ferguson combine. These machines have been out of production for ten years. Because of the high price of new farm machinery this combine will still bring $6,000 to a farmer as a trade-in allowance. Here again, he must declare $3,000 of this as taxable income.

May I call it six o'clock, Mr. Chairman?

The Deputy Chairman: Order, please. It being six o'clock, I do now leave the chair. The committee will meet again at eight o'clock.

At six o'clock the committee took recess.

AFTER RECESS

The committee resumed at 8 p.m.

The Chairman: Order. May I suggest that the committee rise, report progress and request leave to sit again later this day? It is the understanding of the Chair that Mr. Speaker wishes to rule on a question of privilege raised