

Income Tax Act

sions if he so wishes. The problem here is the high capital gains tax. In the United States and in Great Britain you know the costs which you have to meet. Because of inflated land prices, capital gains will be so high that no farmer will be able to stay in business. The government leaves the impression that the estate tax has been abolished, but all they have done has been to create a vacuum for the year. The capital gains formula as applied, against these farms, will be far greater than the estate tax.

With regard to the basic herd, we have heard complaints this afternoon. I would like to quote the view of a group of researchers on Canadian tax reform. I will read what a group of accountants wrote about the subject. They wrote:

No additions may be made to a basic herd after December 31, 1971.

That is certainly of no advantage to farmers because their basic herds do not increase. The researchers go on to say:

—if subsequent to that date, the total number of animals of the appropriate class falls below the number in the basic herd, a sale is deemed to be made from the basic herd to the extent of the excess.

Is that of advantage to farmers? Of course, it is not. I continue the quotation:

The basic herd cannot then be increased. In computing income of a year in which a part of the basic herd is realized, there may be deducted the December 31, 1971 fair market value of the animals so disposed of. Where a farmer has a basic herd plus other animals of the same class, he cannot, in a year of sale, reduce his basic herd by more than 10 per cent of the number of his December 31, 1971 basic herd provided he still owns sufficient animals of the class equal to the reduced basic herd.

If a farmer reached a position in which he could not keep his basic herd because of marketing or economic conditions and he wanted to dispose of that capital asset, he would lose the benefit of the basic herd formula. In other words, it is a straight bookkeeping entry. The government is in fact saying to a farmer "we will control how you market the stock, and if you market it in this fashion you will pay more taxes because we are the ones who determine the formula for the basic herd." According to the old idea, the basic herd was a capital asset, rather than part of income, until it was sold.

This is what the researchers had to say with regard to a farmer's residence:

Where a farmer disposes of his farm and part of it was his principal residence, rather than having the farmland and principal residence treated separately, he can elect to treat the entire farm as one asset, and deduct from his capital gain otherwise determined \$1,000 a year for each year the farm was his principal residence.

This means that if he is farming for ten years he can elect to take ten times \$1,000 off his total capital gains. Let us consider the point I raise. If the value of the farm is inflated because of its proximity to an urban centre, when he sells it he may double his money. If that is the case he will have a capital gain of 50 per cent, that is the difference between the value on valuation day and the price at which he sold it. The 50 per cent is added to his income, with some averaging. That is the situation which is affecting farmers and which will put these people off the farms and out of business.

[Mr. Woolliams.]

If the state runs farms as they run other corporations, we know what will happen to production. Farmers will not have much trouble with marketing when the state takes over. The researchers, comment as follows:

On the face of it, this provision should avoid the need for separate valuations on Valuation Day and the segregation of the sale price, but without the valuation and segregation, on what basis can a determination be made that the election is beneficial?

It is certainly not beneficial to the farmer, and that is my point. We must realize when we are debating these tax provisions as they relate to farmers and ranchers, that they are in a unique position because farming requires large amounts of capital. If a farmer wished to take his investment out of machinery and land and invest it in trust companies, even at today's rates of interest, he would find that he would be far better off. But farming is a way of life, and we should have the kind of taxation which would encourage those people who are serving the nation by producing food as well as by bringing back to Canada large numbers of dollars from the export of grain and cattle.

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

The Assistant Deputy Chairman: Order, please. It being six o'clock, I leave the chair until eight o'clock.

At 6 p.m. the committee took recess.

AFTER RECESS

The committee resumed at 8 p.m.

The Chairman: Shall section 28 carry?

[*Translation*]

Mr. Fortin: Mr. Chairman, I feel it is my duty to speak on this section of Bill C-259 concerning taxation of producers and farmers.

I object to the spirit of this legislation, especially because of the sections now under consideration. Departments adopt a policy unilaterally without taking into account measures adopted by other departments and, consequently, those programs are eventually disastrous for the very people that they intended to help.

The case under consideration tonight is one of those. In fact, it shows how the government lacks logic sometimes when adopting legislation or regulations for the purpose of helping the farmer. Action is taken to help him borrow, but, on the other hand, measures are adopted to ruin him. Finally, neither policies have been effective, because they are contradictory.

In my opinion, any tax reform must take into account the objectives determined by other departments so as to avoid conflicts. To make this point clearer and make my colleagues understand that the provisions before us can in no way satisfy either western or eastern producers, I shall make a brief historical review.

There was a time when, in Canada, all producers were free to run their farms as they liked. It was what was then called the family farm on which parents and children worked and which was transmitted from generation to generation. The young took charge and so on. In eastern