

Income Tax

time to ensure that certain kinds of living accommodation was available to people. The Government is also under pressure, of course, to provide affordable accommodation.

The Minister responsible for Canada Mortgage and Housing in the last few days in Parliament has been under question by Hon. Members opposite about, for example, the non-profit program, which is a way of providing affordable accommodation to a certain income sector in the economy. That program is very expensive. It is a pay-down to 2 per cent. I do not believe there is a country in the world which can afford to provide living accommodation at the interest rate of 2 per cent for the general population. Therefore, the MURB program did generate construction, did generate housing, but it was by and large expensive, and there was a good part of it which was condominium, which did not address the rental sector and did not address those markets where the rental picture was very weak, where the vacancy rates were very low, and even though the MURB provision was in force, investors or builders were not taking advantage of it. For whatever their reasons, they did not want to build where there were demands. For that reason, of course, the Government supported the construction of modest rental accommodation by providing an up-front grant, which gave the Government the opportunity of selecting the location for these buildings and some control over the price, hence the rental charge. I must confess, Mr. Chairman, it was a trade-off.

• (1730)

As I have indicated, the MURB Program was really an adaptation of this portion of the Act by people involved in the construction of multiple units. A debate raged, and this Government was of two minds on some occasions. I submit that the Government of the Hon. Member, when it was in office, was also of two minds, because my recollection is that this provision was not continued for MURBs during the budget presentation of the Conservative Minister of Finance. It was a difficult issue. It depended on what the objectives were at the particular time and how the Government weighted those objectives.

Mr. Clarke: Mr. Chairman, I cannot help but smile when the Minister tells me that the Government was against the removal of the interest deduction in December, 1979, and now he is in favour of its removal.

Mr. Cosgrove: I could say the same thing about you.

Mr. Clarke: The Minister talked about inventory. I suggest that he look at page 39 of this Bill. Beside the word "Exceptions", it says:

(3.4) Subsection (3.1) does not apply to prohibit a deduction in a taxation year by

(a) a corporation whose principal business was throughout the year the leasing, rental or sale, or the development for lease, rental or sale, or any combination thereof, of real property owned by it to or for a person with whom the corporation was dealing at arm's length;

I do not think I need to go beyond that to illustrate my point. Any corporation, or individual for that matter, who is

developing for lease any real estate does not enjoy an inventory position on the money he is investing or the property he is developing. It would be a depreciable asset in the hands of the corporation. I submit to the Minister and ask him to explain to the Committee how it would be that a corporation, whose principal business was such, should be differentiated from an individual whose principal business was such? Why do we have such contrary principles in a so-called tax Act?

Mr. Cosgrove: I think my response to that is that we are never quite sure, at the initiation of construction of a project, whether it is going to be used for condominium purposes or whether it is going to be rental. Some developers try to keep their options open as they go along. For example, in making submissions through the planning process developers will indicate that the project could be a free-hold project or it could be a rental project. I am not sure of all the factors that would go into that kind of decision, but obviously part of it depends on what market conditions are and whether the developer thinks he can sell or whether he should retain and rent. They do not make that decision right away. So they have a choice of retaining it for ownership purposes and sale at a later time, or maintaining it in a portfolio as an income-producing asset.

Mr. Clarke: Mr. Chairman, I would like to illustrate my problem and my complaint about this dual principle to the Minister. Let us take a corporation which has never sold any real estate. It has a long history, maybe ten or 20 years, of investing in real estate for rental or lease. Therefore, there can be no doubt under this Clause that its principal business throughout the year was the leasing of real property owned by it. Now, when it comes to a new project for leasing it will be allowed to deduct the interest cost incurred. However, if we take an identically situated individual in the same circumstances who comes along in 1983 to develop a property for lease, that individual will be denied the deduction of his interest costs during construction.

I would like to know how the tax Act can differentiate in that way between an individual and a corporation, both of whom are conducting exactly the same business?

Mr. Cosgrove: Mr. Chairman, my officials advise me that an analysis of those who applied to take advantage of this Section will show that the person or corporation who would qualify under Subclause 3(4) will have real estate as a principal business. They are not using the provision as a tax shelter. There are legitimate firms who are not looking to this Section as a tax dodge or tax relief provision, but are legitimately in that business. It is their only business, they have no other economic activities against which this deduction can be offset.

Mr. Clarke: Mr. Chairman, I hear the Minister explaining it again, but I am still not satisfied. I do not think I will pursue it with any further benefit to myself or the Committee, but I hear the Minister saying that an individual is being discriminated against because he is not a corporation even though he might be doing exactly the same thing. I say again that this is an example of soft principles on the part of the Government.