

intended as a response to a most urgent problem facing us, namely, the need to help preserve the family farm as a viable unit. The farm is a unique property—it is an illiquid asset, subject to volatile fluctuations in value. An involuntary deemed sale for tax purposes at a time when there is no actual receipt of cash may leave the family with no choice but to sell out. This amendment should help to prevent that result.

Under the present law, part of the sale proceeds of licences and rights issued by a federal, provincial or municipal authority and acquired before 1972, and later disposed of, are treated as income. No deduction may be made for any amount paid to obtain the licence. An amendment is proposed to ensure that any recovery of original cost will not be taxed. This provision will cover milk and other agricultural marketing quotas, timber, taxi, bus, truck, broadcasting and similar government issued licences.

For farmers and ranchers reporting their income on a cash basis, the early years of establishing a new herd can result in heavy startup expenses and a substantial loss. In many cases, the loss cannot be used within the five year period allowed for the carry forward of losses under the existing act. A proposed amendment will permit a farmer or rancher to carry his livestock in his inventory at any amount up to fair market value. This will overcome the problem of "unusable losses" in the early years and allow those startup expenses to be taken into account in later, profitable years.

There are also a number of proposed amendments in this bill which are of particular interest to the small businessman. As an incentive to small business, the present act provides a rate of 25 per cent on the first \$50,000 in each year of business income of Canadian-controlled private corporations until \$400,000 of taxable income has been accumulated. The purpose of the incentive was to provide additional funds to help corporations expand their businesses. To the extent that a corporation did not need additional capital to expand, the benefit of this incentive was not made available. This was accomplished by a provision withdrawing the benefit of the low rate to the extent that retained earnings were put into long term investments, unrelated to business activities—the so-called ineligible investment test. This ineligible investment test has proven complex and difficult. An amendment will repeal the test effective January 1, 1972.

The Income Tax Act requires a corporation to make an election when it pays a special dividend out of its surplus which was accumulated before the start of the new system on January 1, 1972. Many small corporations found difficulty in meeting these requirements during the first year of the new system, and to relieve the problem, an amendment will permit corporations to file late elections for special dividends payable during 1972. A corporation's surplus accumulated prior to 1972 consists of undistributed income and capital gains. A corporation may distribute both of these surpluses free of tax to its shareholders, but only after it has paid a special 15 per cent tax on its 1971 undistributed income. If the corporation distributes its pre-1972 capital gains before it has paid the 15 per cent tax on all of its pre-1972 undistributed income, a special tax is levied.

Income Tax Act

A proposed amendment would permit a corporation to elect to pay the 15 per cent tax on its total undistributed income—whatever that figure turns out to be—and once that election is made the corporation could proceed to distribute its pre-1972 capital gains without the risk of paying the special tax. This will relieve the difficulty facing many small corporations in estimating their undistributed income on hand at the end of 1971.

Where a Canadian corporation distributes its property to shareholders in the course of winding up, it may have difficulty in taking advantage of the rules permitting payment of dividends out of its special surplus accounts. Proposed changes will permit the rules for distribution of these special accounts to work more effectively. This has been a particularly troublesome problem to many small businessmen who often find themselves faced with the need to re-organize their business. The proposed amendment should provide welcome simplification of the existing rules.

I wish that time permitted me the opportunity to discuss all of the many amendments proposed in this bill, but I hope during the committee stage to be able to give what explanations I can to the House through the committee and to respond to whatever questions and clarifications may be needed. I have limited myself to a few general comments at this second reading stage upon some of the more important measures affecting individuals and particularly farmers and small businessmen. I hope that, in so far as they went, my remarks have been helpful to hon. members in obtaining a better general understanding of the nature of the bill. I look forward to the constructive comments which I am confident will be forthcoming at the committee stage and during second reading from all hon. members as we debate the bill.

Hon. Marcel Lambert (Edmonton West): Mr. Speaker, I think the Minister of Finance (Mr. Turner) did not speak any truer words than the last ones that he uttered when he said his explanations at this stage are extremely brief on a subject which is extremely difficult. I must say that I find the thinking processes of the government somewhat illogical at this time.

• (1530)

First of all, the minister exhorted us to deal expeditiously with this legislation when he introduced his ways and means motion the other day. He said, as recorded at page 2723 of *Hansard* for March 29:

I would urge the House to deal expeditiously with these 1972 tax measures . . . After these have been dealt with, parliament will be asked to consider those tax measures arising out of the May and February budgets which affect 1973 and subsequent taxation years.

That sounds very nice, reasonable and plausible, except that it was within the power of the government to have had the House deal with these matters much sooner than now. It is only at the eleventh hour—as a matter of fact some people would say at five minutes to midnight—that the government has made up its mind on how it is going to proceed on some of the budget proposals of May, 1972 in order to maintain a somewhat illicit relationship with the NDP. I can see the pattern now. The government is going to combine some of the May proposals with those made in