

*Income Tax Act*

**Mr. Turner (Ottawa-Carleton):** Subclause (4) is a relieving provision which provides that all corporations, and just not principal business corporations, can be shareholders of a joint exploration corporation. A joint exploration corporation can incur Canadian E and D expenses and can renounce such expenditures to its shareholder corporations, which can deduct them to the extent allowable for calculating their taxable income.

Subclause (5) I dealt with when I was referring to the consequential amendment earlier. This, again, is a technical and relieving amendment. I have put the reasons for it on record.

Subclause (6) is a relieving provision to amend the definition of a shareholder corporation of a joint exploration corporation by removing the requirement for the shareholder corporation to be a principal business corporation.

**The Chairman:** We now come to subclause (7).

**Mr. Turner (Ottawa-Carleton):** There should not be any problem with this subclause.

**The Chairman:** Shall clause 18 carry?

**Some hon. Members:** Agreed.

Clause agreed to.

On clause 19—*Depreciable and other capital property of deceased taxpayer.*

**Mr. Turner (Ottawa-Carleton):** Mr. Chairman, I listened with great interest to the debate on second reading, and I suggest that most of the debate on this clause will centre on the transfer, by death, of the family farm. My remarks will relate to clause 19(3) and of course will relate to clause 20 of the bill. I should like to make a few comments about the family farm.

The purpose of the amendment that is now brought before the House is to meet the problem of the transmission from one generation to another of a family farm in circumstances that were set out in the tax reform law which came into force in January 1, 1972, under which there was to be a deemed capital gain upon transmission of the farm; but there was no income or liquidity from which to satisfy the payment of the capital gain.

The distinction between the family farm and any other sort of business is that a farm, by its very nature, tends to be highly capitalized in terms of land and equipment. Secondly, there is a predominantly non-liquid situation in that most of the assets of the farm are tied up in land and equipment. Thirdly, the value of the land is highly volatile; it depends on market conditions prevailing at the time in the area and on other market conditions that may be quite irrelevant, apart from the essential worth of the farm as a going concern. Fluctuations in value might be caused by increased land values because of metropolitan expansion and encroachment.

That being so, it became clear to me when I took on this portfolio that something had to be done to ensure that the deemed capitalization would not hinder the transmission of the family farm from one generation to another in cases where the family intended the land to continue in use as a farm. In other words, something had to be done to prevent a forced sale of the farm in order for the family

to meet the debt to the Crown against the deemed capitalization. That is why the amendment is now before the committee.

Some points were made during the debate on second reading to the effect that freedom from capital gain should apply not only to the deemed realization on death but also to any transfer within the family during the lifetime of the farmer, so long as the farm continued as a farm. When we first reviewed the situation it was our opinion that the same situation did not apply during lifetime as applied after death. In other words, the capital gain could only be incurred during lifetime by actual payment, because the actual payments by son or daughter to the father or mother would take place and the capital gain would only be incurred as the moneys were received. If payments were made in instalments, the capital gain would only be due in instalments.

• (2140)

Take the situation where a farm was originally worth \$100,000 and increased in value to \$200,000 at the time of transfer. There is a capital gain of \$100,000. The payments are made in instalments over a ten-year period; they are each \$10,000. The capital gain would only be 50 per cent of each of those payments, namely, \$5,000 out of each \$10,000 payment. The capital gain payable on that \$5,000 would only be one half that amount, namely, \$2,500 at whatever the taxpayer's graduated rate may be. If it is 30 per cent, it would be 30 per cent of \$2,500, which equals \$750. That does not appear to be the same type of hardship as deemed realized of a total capital gain. I have looked at the situation. We have consulted our own people. If it is the feeling of the committee that the purpose is to maintain the family farm, the government is prepared to look at this matter seriously. I can recall the words of the hon. member for Bruce at the finance committee, who said this ought to be done.

As hon. members know, subclause 19(3) of this bill would implement the ways and means motion to provide a roll-over for farm profit on the death of the taxpayer. As I have said, this change is to avoid the disruptive effect which the imposition of tax on an accrued gain might have at that time, and thus help preserve the continuity of the family farm. We all want to see that. Representations have recently been made. I listened to speeches by members opposite and by members on the government side, both in caucus and in the finance committee when I was discussing my estimates, very carefully. I read them again to make sure I understood what I heard. Representations were made that this roll-over be extended to transfers during the farmer's lifetime. I am prepared to take that point. I am, therefore, prepared to move the necessary amendments to the ways and means motion when the Speaker is in the chair. This can be handled however Your Honour wishes. If the amendments are accepted by the Chair, I can then make the necessary amendments in committee to clauses 19 and 20.

A new clause No. 20.1 would permit a farmer to transfer his farmland and appreciables to his child by sale or gift during his lifetime without imposition of a capital gain at that time. There are two other consequential amendments I would want to put to the committee at this stage. Hopefully, the committee will think about them and assess