

*Income Tax Act*

so and, therefore, I can only assume this indeed is the case.

**Mr. Mahoney:** On a point of order, Mr. Chairman, I assumed the hon. member would give some indication he is yielding the floor if and when he wants a question answered. On the specific point he has raised, the special averaging provisions which farmers and fishermen have hitherto enjoyed continue in effect and, in fact, were passed by this committee a few days ago.

**Mr. Downey:** I thank the parliamentary secretary. I did not realize it was necessary to make him aware of the fact that an answer was desired. Knowing his great interest in agricultural problems, I assumed he would be sitting on the edge of his seat ready to answer at any time. I understand that the averaging provision will continue to be applicable in these circumstances, and that it is only in respect of other taxpayers that this will not apply.

Another item which I believe would jeopardize the situation of farmers is the roll-over, and the fact that we know we will have transfers of farms from generation to generation. It is true that in this tax bill the federal government is removing the estate tax, but a capital gains tax is being introduced. I believe it would be very beneficial to agriculture if transfers between bona fide farmers could be permitted without being subject to a capital gains tax. If agriculture is to continue, I suggest it is very vital that inter-generation transfers and family transfers be permitted. Very few young farmers are able to start farming today if there is not a farm already in the family. Capital is hard to acquire and the farming situation is very tight because, although the products are not selling at a higher price than they sold at 10, 20 or 25 years ago, costs are much higher. I suggest the only way in which we can ensure that farms will continue in operation is to allow these inter-generation and inter-family transfers without attracting a great deal of tax, capital gains, estate tax or what have you.

I do not believe there has been enough consultation between the provinces on the matter of estate tax and capital gains tax. The federal government says it intends to take off the estate tax, but we read in the papers that two more provinces are required to make up the necessary four before the federal government will collect estate taxes on their behalf. So, really there will be no respite for many people in this country in respect of estate taxes, simply because there has not been sufficient consultation with the provinces. Now, a great many of these people will be forced into a position where they will be subject to a capital gains tax and an estate tax as well. In the province of Alberta we are very fortunate in having a government which has no intention of bringing in an estate tax. However, provinces such as Manitoba and Saskatchewan are considering this, and therefore I feel very sorry for the farmers in those provinces.

Now, I should like to refer to section 31 which reads in part:

Where a taxpayer's chief source of income for a taxation year is neither farming nor a combination of farming and some other source of income—

I suppose one could call this the hobby farmer section. In reality, we must remember that it means a young fellow who starts a farm and, during a period when he has

no real income from that farm goes out and works for an oil company, for instance, cannot deduct the expenses of his farm from his income because his main source of income was not from farming. I realize the intention behind this section, but it is one of these examples of going after a sparrow with a shotgun. Probably we are hurting a great many people while enabling the government to receive only a small amount of revenue from people who would capitalize on this section while not being bona fide farmers. I suggest we should have an amended formula, which I hope the minister would consider, under which an individual who is trying to maintain the farming operation and is supplementing his income with other employment, may be able to deduct his expenses as a bona fide farmer, which indeed in this case he would be. I hope the department will consider this suggestion because this is a very important matter.

• (3:10 p.m.)

Another point is that in the past few years the Minister of Agriculture has made a sincere effort to try to make farms into economic units. As a result of the process of making economic units out of farms and the desire of farmers to pass on the farm to future generations, some farm operations have been incorporated. We have many farm partnerships. Often brothers start off farming together. But in this situation they will not be treated quite the same as will other individuals. I suggest that the \$1,000 residence exemption as well as other provisions that are applicable to farmers as individuals, should be applicable to partnerships and to bona fide family farming operations. Some formula could be devised here, and I would adopt the suggestion the Federation of Agriculture made in its brief that so long as 80 per cent of the income of the family came from the farm held by the family, this should be handled in the same manner as the income of an individual. It is difficult to imagine why a family corporation, a partnership or something of this nature, would not qualify for the \$1,000 a year exemption granted to an individual when the only reason a farm is incorporated is to sustain it as an economic unit. I think it is very important that this matter be considered.

In the matter of recaptured depreciation, we have had a method which has worked quite satisfactorily, which has encouraged farmers to upgrade their equipment and to keep up with technological advances. There is no way in which they could produce food for the same price they were getting for it 20 years ago if they had not kept pace with the times and kept abreast of the technological advances. I think that bringing any recaptured depreciation into income by way of capital gains, as is done under this bill is a retrograde step. It will not encourage farmers to maintain their equipment or to upgrade it, and this can only be to the detriment of agriculture. Many forms of encouragement are given to industry to ensure that they are able to upgrade their equipment and keep pace with the times. I suggest that under this legislation we are doing exactly the opposite when we bring recaptured depreciation into income. I might give notice that we will be moving an amendment in this regard at a later date, but I would ask the minister to give consideration to this problem.

[Mr. Downey.]