

Income Tax

think it would be responsible for us to sit here now and try to define some of the activities of a construction project. We can assume that people on these projects know the difference and know when they incur soft costs. Revenue Canada will also be able to help out here.

● (1720)

Mr. King: Mr. Chairman, I believe it is important because defining that period is the all-important part of the Clause about which we are talking. I have been advised that soft cost capitalization can create an undepreciated capital cost in excess of the actual market value, or the actual value, of the asset. Thus it could, theoretically, at least, contribute to a terminal loss situation for which one-half of the loss only could be used in a tax calculation. In this instance, the taxpayer would have been penalized at the beginning and at the end in the terminal loss situation. Is this correct?

Mr. Fisher: Mr. Chairman, I would like to know what kind of a businessman would deliberately set out to build a loser. What sort of an experience do we have here where someone incurs more expense than he can conceivably charge for? Can the Hon. Member give us some idea of where these builders live? I would like them to come and have a good time in my riding, too. We could cut the costs.

Mr. King: I do not believe that there was any attempt by any entrepreneur or enterprise to reach this situation, but there has certainly been many of them pushed into this situation by the policies of the Government the Hon. Member represents, and it has created an economic circumstance in which it is impossible for the industrious person to create something of value and something that can sustain itself. Maybe the Hon. Member would like to comment on that? I believe the Government itself has created the circumstances where this can become a possibility. Nevertheless, I could talk for several days on soft fruit, but I have a little difficulty on soft costs, and I will turn the floor over to someone else.

Mr. Fisher: Mr. Chairman, the Hon. Member will know that if a builder or a contractor has a couple of years where he can get his depreciation, then he will not really be in a terminal loss situation. I would like to point out, and remind the Hon. Member, that what we have done here is to slow down the rate at which people can write off these costs. We have not disallowed the costs altogether. We are simply asking them to be treated in a separate category. People have previously shown us that these fast write-offs have been a temptation, and too much has been loaded into that category because of the temptation. We are simply trying to balance that out a bit. To say that this category now must as a whole be treated in a slower write-off fashion, that is the principle of what we are doing here. I take seriously the Hon. Member's concern about creating more expense and having a building which costs more than you can sell it for.

I would urge the Hon. Member to look particularly in the rental housing area, at some of the other programs which the Government has introduced to alleviate such a situation. The Minister of State for Finance, when he was responsible for CMHC, introduced many of these programs in recognition of

such difficulties, particularly the difficulties for people building apartments for rental use. The Hon. Minister could probably take a couple of hours quite legitimately to describe to us the beneficial programs which he introduced when he was Minister responsible for CHMC.

Mr. Clarke: Mr. Chairman, I do not know much about soft fruit, nor do I know an awful lot about soft costs, but I would like to ask the Minister about soft principles. I would like to know if the drafters of the legislation before us considered the generally acceptable accounting principles which would require that the interest which he is talking about disallowing as a write-off be capitalized, anyway, during construction by individuals who are constructing capital projects? Was consideration given to that principle?

Mr. Cosgrove: Mr. Chairman, the officials advise me that, yes, that was considered. Arguments were made on the point made by the Hon. Member, but I am told that the principle employed here, to relate the interest charges to the capital projects, is what is done in the majority of cases, even under established accounting practices.

Mr. Clarke: I agree with the Minister, Mr. Chairman, and that was the thrust of my question. In other words, previously, tax accounting and generally accepted accounting principles, had required the capitalization of interest during construction of the capital project. The MURB rules have changed that and allowed the interest to be written off so that the generally accepted principle was changed to accommodate the construction, or to encourage the construction of residential real estate. I believe that principle was applauded by most people. As far as I know it was a fairly successful program. Perhaps the Minister would like to comment on the success of the program. If so, I would like to hear it, but in the meantime that brings me to another soft principle, I call it: why then, in changing back to the proper accounting principles, that is forcing the investor to capitalize the interest incurred during construction, do they have one principle for individuals and some corporations, and yet exempt corporations whose principle business is the construction, development and leasing of real estate?

Mr. Cosgrove: Mr. Chairman, the answer to the last part of the question, in the example given by the Hon. Member, is that the asset is inventory rather than a capital asset. Therefore, the rules are different when you are looking at something that is retained for capital purposes or something that is rolled over. In so far as the application of soft costs is concerned as it pertains to the MURB program generally, I believe there is no question that the use of the Income Tax Act in conjunction with, or as a means of, assisting construction of multiple unit buildings, whether rental or condominium, was successful in generating construction of a lot of buildings. The difficulty was that the Government was not only concerned with the aspect of the generation of construction which carries with it employment for people, and also, obviously, living accommodation for certain types of people, but was under pressure at the same