

Income Tax

rate set-up and the family farm partnership are the items in which I am particularly interested.

I should like to remind the minister of what I felt was a very useful meeting which took place in the minister's office almost a year ago now, on March 13, 1974. At that time he was good enough to meet with the tax committee of the Canadian Cattlemen's Association. Most of our conversation was directed to this subject I am raising this evening. At that time the minister was good enough to include myself and the hon. member for Kamloops-Cariboo in the meeting because of our obvious interest in the cattle industry in Canada. I thought we came away from that meeting with the feeling that the minister was genuinely interested. We felt our points were well taken, and that something might come from that.

I made some remarks on this subject during the second reading debate and I should like to go back to two short paragraphs because I think they state in a nutshell the arguments which are pertinent. I said:

It is important to remember that while only some 7 per cent of our Canadian farms are incorporated, they account for 28 per cent of our total farm production. These figures do not include farm partnerships. We should also take note of the fact that while we have some 336,000 farmers in Canada, about one-third of this number, 113,000, produce 80 per cent of our total farm production. It is a personal view, of course, but I make a clear distinction between a so-called family farm corporation and a business corporation in a non-farm sector of our society. Surely the fundamental reason for farm incorporation is to enhance and preserve the family farm as a meaningful farm unit.

I should like to add that there seems to be a sense of responsibility on the part of the federal government and many of our provincial governments in that over the years they have encouraged this type of family farm set up in order to preserve the interests of families, keeping them interested in the family farm approach. Then I went on to say during second reading debate, in reference to the meeting with the minister in March of 1974:

—there appeared to be genuine interest and sympathy from the minister with respect to this matter. He suggested to our tax committee that because of the implications of our request, the so-called small business side of our society had to be seriously considered and he could make no decision at that time. He also suggested that his department must determine, in fairness to small businesses, if the roll-over provisions for small family businesses should also apply to them. To use the current phrase, I ask sincerely, why not? Surely a suitable definition of the term "small business" or "small family business" could be arrived at. This possibility could be given serious consideration. I think the minister has got into difficulty because he cannot adequately define a small business. In summary, I suggest that clause 38(7) of Bill C-49 has indeed done justice to the individual family farm, but at the same time it has drawn attention to a remaining injustice to other family farm businesses which do not enjoy this privilege.

It seems to me that the term "family farm corporation" suggests something insidious or sinister about a big business type of project. This is a necessary type of operation that has to be recognized. It is not in the category of a million dollar enterprise that bears close tax scrutiny or anything like that. Since that meeting with the minister a year ago I hope the minister has given this some thought and can make some comment on the situation. I would invite him to do so now.

Mr. Turner (Ottawa-Carleton): Mr. Chairman, I recall the meeting to which the hon. member for Medicine Hat referred. The hon. member for Kamloops-Cariboo was there, and also an old friend of mine, Gordon Parks, who is

now the president of the Canadian Cattlemen's Association. He went to university with me in British Columbia.

Subsequent to that meeting I was with the hon. member in the Kamloops-Cariboo constituency, both in Kamloops and Quesnel, where we had further discussions about this problem, so I have been doing a great deal of thinking about it. I have not been able to resolve the problem to the satisfaction of either the hon. member for Kamloops-Cariboo or the hon. member for Medicine Hat.

We were concerned about persuading more people to stay on the land and produce food. We recognized the difficulty in respect of a family farm in the current economic structure, and we eliminated the capital gains tax on the transformation of a family farm from one generation to another as long as the land remains in agricultural use. The difficulty is that since the land is so illiquid, the payment of capital gains tax on the value of the land is very difficult, particularly in those areas of the country where there might be an artificial effect as a result of suburban sprawl. In this event the land is drawn out of agricultural production because the children cannot raise the money to pay the tax on the death of the father or mother, and it is the land, that is liquidated.

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In the case of an incorporated farm there is not that type of liquidity because the shares, by reason of estate planning, can be transmitted over a period of time within the lifetime of the father and mother, and the same problem of liquidity does not arise.

There is also the fact that it is very difficult to ascertain whether the incorporated farm or the corporation to which the farm has been sold, or which holds the farm, does not also on behalf of the shareholders hold other property, shares, investments, other businesses and so on. From an administrative point of view trying to segregate the holdings of the corporation, the farm, from the other assets, would be extremely difficult indeed. On the question raised by the hon. member for Medicine Hat, there is very little logic in segregating the incorporated family farm as a business from any other incorporated business in the country—of which there are hundreds of thousands—so that in fairness, if one were to allow capital gains, free transmission from one generation to another in an incorporated family farm, there would be little argument for resisting that transmission on a tax free basis from one generation to another in any incorporated family business.

I have not been able to overcome those problems, and when the hon. gentleman mentions small business, I might say that we did try to accommodate small business in the last budget by increasing cash flow available to small businessmen incorporated in this country by raising the limit from \$50,000 to \$100,000 against which the 20 per cent or 25 per cent rate applies. I say those two different rates because it would be 20 per cent in the case of a manufacturer or processor, and it would be 25 per cent in the case of any other small business, and would raise the accumulated surplus against which those lower rates could apply from \$400,000 to \$500,000. That means an increase in cash flow for every small incorporated small business in this country of \$11,500 per year.