

Income Tax Act

Mr. Burton: Mr. Chairman, when the committee rose at one o'clock, I was in the process of asking the parliamentary secretary some questions about the group of sections we were discussing. I wish to pursue a couple of matters that I feel have not been dealt with adequately. Specifically, I wish to ask the parliamentary secretary to clarify what the situation will be if a farmer carrying on a cattle and grain operation decides, for a variety of reasons, to go to an accrued accounting system, which would apply to his cattle operation. For instance, it may be better for him to do this. Is he then forced to make his calculations with respect to his grain operation on an accrued accounting basis, or would it be possible for him to deal with his grain operation on a cash basis.

I ask this because there are special problems facing many grain farmers in Canada who, by force of circumstances may be circumstances in which, since one portion of their operation may be in livestock, it would be of benefit to them if they could switch over to an accrued accounting basis. My question is this: In a situation like that, can they use the two systems?

Mr. Mahoney: No, Mr. Chairman.

Mr. Burton: Mr. Chairman, is the government giving further consideration to bringing in changes in this regard? Has it received representations on this matter. What is the situation? Is any change possible? Why can the government not consider allowing both types of accounting procedure to apply to the type of operation I have described?

Mr. Mahoney: Mr. Chairman, the right of farmers and fishermen to report on a cash basis is regarded as an option that is beneficial to them. So far as I am aware, there have been no serious representations to the effect that we should allow them to pick the accrual method of accounting for any particular aspect of their operation where it is to their tax advantage to do so and, at the same time, allow them to retain the general benefit under section 28 with respect to reporting on a cash basis. I am not aware of any serious representations in this regard. Actually, I am not aware of any representations like these, other than those that the hon. member himself may be making now.

Mr. Burton: Mr. Chairman, I think the point has been raised earlier. Of course, I am not sure what the definition of "serious" might be.

Mr. Mahoney: I am not suggesting the hon. member is not serious.

Mr. Burton: I was under the impression that this matter had been raised, and that it had received some consideration. I know there may be complexities in dealing with this matter. However, it deserves further consideration and I hope the government will give it that further consideration.

Mr. Mahoney: Mr. Chairman, I certainly was not trying to imply that the hon. member was not serious in his suggestions at this time. I ought to say that we have received, during the course of the whole tax reform debate, literally tens of thousands of letters and it is quite possible that some such suggestions came forward. How-

ever, there is no instance of such a representation standing out, so far as I can recall.

Mr. Burton: Mr. Chairman, I still cannot understand why the government thinks it would not be possible to make some provision like that. If there is an explanation, I would be interested in hearing it. It seems to me that the problem here ought to be considered in the light of some of the points I raised before the noon adjournment. I think the government should bear those points in mind in framing sections of the act that specifically affect the agricultural industry.

May I briefly move on to section 31, which I had mentioned to the parliamentary secretary before lunch. The section deals with losses derived from farming operations and the right to write those losses off against income derived from another source. I want to mention to the parliamentary secretary the problem involving farmers who are just starting up their operation and who are incurring heavy losses, or some losses at any rate, in the initial years of the operation. I mention a hypothetical situation which I think can easily be translated into reality.

Let us say a farmer is starting up in a manner which would certainly meet the requirements of the government and the Department of National Revenue; in other words, he is a bona fide farmer. In the initial years of his operation he incurs losses. Since the averaging provisions are weighted over a five-year period, the incidence of his income in future years may be such that he will not gain much benefit from the averaging provisions. I just want to ask, first, whether a farmer starting up his operation and incurring losses, and at the same time engaging in other work which he must often do in order to survive and in order to be able to carry on his new farming operation, can qualify under the provisions of section 31. Also, how will this situation fit within the framework of the time period that is involved. How will this provision work in that period before the farmer can put himself in the position of actually earning an income, as defined for taxation purposes?

• (3:00 p.m.)

Mr. Mahoney: Mr. Chairman, I think the hon. member will appreciate that perhaps the term "qualify" under section 31 is not proper because section 31 is a limiting section rather than a section that offers any particular advantage to a bona fide farmer. What it does limit is the opportunity for people only dabbling in farming to offset their losses against other sources of income. There is no reason why a person entering into farming for the first time cannot avail himself of the opportunity of offsetting his losses not only against farm income, but against other sources of income. The whole question of fact revolves around whether or not his chief source of income is a combination of farming and other income as a lump or whether, really his chief source of income is whatever profession or business he is carrying on elsewhere and his farming activities are a hobby arrangement.

Mr. Burton: Mr. Chairman, I appreciate the comments made by the parliamentary secretary on this matter. I am glad to have the assurance he has given us, although some of the problems involved in averaging still exist, particu-