

Income Tax

there is some kind of set methodology there, not naming just professions but the methodology that exempts those certain groups from the provisions of work in progress rule.

What I am asking for is not for examples on an ad hoc basis but rather for the methodology whereby other professions can be deemed exempt from this provision.

Mr. Fisher: Mr. Chairman, the dividing line was the current law, those people who are now listed in the law as people not eligible for the small business tax. That was the basis on which we were able to draw the line.

Mr. Anguish: Mr. Chairman, just for clarification, is the Hon. Member saying that if they are not eligible for the small business tax then they become exempt under this?

Mr. Fisher: That is the answer, Mr. Chairman.

Mr. Gamble: Mr. Chairman, I have listened to the comments made by the Minister who, in dealing with this proposed amendment as it affects the inclusion in income tax provisions of certain professionals, although not others, of an amount representing their work in progress of professionals. I was particularly intrigued by the remarks that he made with respect to fairness and equity, and I recall the same buzzwords being employed by the former Minister when he originally introduced the budget, giving rise to these inequitable provisions.

He also indicated, in talking about the Minister today, that what we were endeavouring to do in the House was to include income from whatever source. That of course leaves undecided the issue of what income is. What we should do in approaching this matter is not to adopt the position of the NDP, which has been to ask why certain professions are excluded from this change in the law, but rather to ask why the law is being changed.

Let us analyse what in fact is happening. We know that the concept of income tax is rooted in the belief that the Government is entitled to a portion of the income of taxpayers, be they individuals or corporations. It was not unreasonable, when this plan for taxing income was first conceived, that a portion of one's actual receipts in cash in the bank be allocated to Her Majesty in right of Canada, as represented by the Minister of National Revenue. It was not a very difficult task because the money was actually there. The Government decided that rather than wait until the cash is in the bank, it preferred to have its piece of the action before the cash was received. The method for extracting the pre-receipt tax was concocted and supported by the accrual method of taxation, the accrual of determining income, the basis thereby reflecting in the inclusion in income an account which had been rendered or in some cases an account that should have been rendered.

• (1540)

We have taken this matter a step further with this proposal. We have endeavoured to deal with professionals who, together with farmers, had been treated somewhat differently from the general small business community to which the Parliamentary

Secretary earlier made reference, identifying himself as one of those Members.

It is true that the small business community has been obliged to calculate its income not only on the accrual method which applies to professionals, but by including in the determination of income a valuation for inventory. In determining inventory, it was necessary to affix a value to that inventory. It was fixed at the lower of cost or market.

In most cases applicable to the non-professional small business, however, that inventory generally consisted of something which was tangible and saleable, not all the time but most of the time. If it was not tangible and saleable as the stock in trade of that business, it was an item which could readily be disposed of as part of the stock in trade of another business. Accordingly, it was appropriate to value that inventory including the work in progress. Let me give a simple illustration. A small manufacturing firm which qualified for the small business deduction to which the Parliamentary Secretary referred fabricated metal shields of some kind. Those metal shields may have been partially completed at the end of the fiscal period. A determination would be made of the value of those partially completed goods. That was part of the value of the inventory of the small business. That inventory, because of the accounting method that was adopted, was used for the purpose of determining the actual income as of that moment, which is the end of the fiscal period of the business.

However, when you pass on to deal with the position of professionals, there is no corresponding item of trade goods that can be readily sold and valued at the lower of either cost or market value. If I may, I should like to give an illustration of a professional who is in fact not excluded by the provisions to which reference has been made and, accordingly, subject to this onerous provision. An engineer may practise on his own. An architect may draw plans in his home in the evenings and then put them away. As many architects find, some of those plans are not subject to further use. However, time and effort has been spent on the drawings. The drawings consist of paper and pencil markings on them. They may have a total value of \$10. There may have been 100 hours of his time spent which could conceivably have a value of \$3,000 if they are sold. Architects generally extract the majority of their fees at the end of a project when they are given a supervision contract, which includes not only the preparation of the drawings but supervision of the project.

How much are those drawings worth at the end of the fiscal period of the architect who has received no commission? The Government will say nothing, and that it is a matter for valuation.

The whole process is ludicrous and should be scrapped. The Government has attempted to transpose fixed stock in trade inventories of a regular business and the concepts of inventory values arising therefrom to the area of the professional. I tell you this, Mr. Chairman, the whole process will be for naught. There is not one professional excluded from the protection that is granted by way of exemption under this Bill who will not