

Income Tax Act

known as the hobby farmer section and deals with a loss from farming where the chief source of income is not from farming. My question is: Does the department rule on whether a person is a farmer or a hobby farmer? If a person's income from a source other than farming exceeds his income from farming in any given year, is that person, for the purposes of this section, classified as a hobby farmer?

Mr. Mahoney: Mr. Chairman, it is not really a question of classification, it is a question of a person being able to offset losses from farming operations against his income from another source. The question of what is the chief source of income of a given taxpayer in a given year is a simple matter of calculation. If his chief source of income is from farming, then it may be he will sustain a loss for the entire year. But if some other source of income, say from professional investment or some other business, is the chief source of income, then he can only offset a limited part of his farming loss against such income.

Mr. Ritchie: Take the case of a farmer who has a crop disaster and takes, say, a job building roads or something like that. For that year that is his main source of income. Are the losses he sustains in that year and which he may deduct restricted by section 31?

Mr. Mahoney: If whatever income he has from his farming operations is entirely offset by the cost he incurs in conducting those farming operations, then he is limited to the \$2,500 as provided for in that section. Then above that \$2,500 he may deduct half of the balance of his loss up to a total of \$5,000 from his income as a construction worker on a road gang.

Mr. Ritchie: Suppose a taxpayer sustains a \$2,500 loss during his taxation year; can he include in that loss his property taxes on the land, the interest he pays on any mortgage on the land, and so on?

Mr. Mahoney: As far as his farming operations are concerned, they are factors that go to determine his cost. If they bring his net to a loss position rather than to a profit position, then yes they are part of the loss.

Mr. Ritchie: If his loss is greater than \$2,500 and his property taxes and interest on his mortgage have to be paid, I understand he would use what is called an accumulated cost basis in assessing his tax; is this correct?

Mr. Mahoney: This is for a hobby farmer who may have an opportunity to write off that loss later against income other than farming income. But this is not a section that would apply to a bona fide farmer. We are talking about people who run a farm as a sideline. I think the hon. member could conceive of a situation where a farmer might find himself in this position in a given year, but I do not think it happens in practice. A hobby farmer is a hobby farmer; a bona fide farmer is not.

Mr. Ritchie: I find this section a little confusing. Today you can easily lose \$2,500 on a very modest farming operation if you have a bad year. To get back to the construction worker, his principal income would be that derived from road building in the year that he had a crop failure.

[Mr. Ritchie.]

Let us say he sustains a loss of \$3,500, \$1,000 more than for which relief is allowed. Five hundred dollars is deductible under the one-half provision. The interest on his mortgage would no doubt be quite heavy if he were just starting his operation, and so would his property tax. These items would not be carried back to the farming income that he may well expect to earn in the years ahead. Therefore, as far as I can see he will never be able to deduct his losses until he sells his farm; and if he realizes a capital gain he may get some recompense for that loss.

I think this is one area which should be looked at. I think the problem is one of definition. What is a so-called hobby farmer? Some people are hobby farmers, but according to surveys I have conducted I have found that over 50 per cent of our farmers have some income other than from farming. Very often this income is earned by the wife. But as far as our tax laws are concerned I think we are moving toward some sort of income splitting and some recognition will have to be given to family farming units if this is the case.

• (10:20 p.m.)

A good many farmers have income derived from sources other than the actual farming operation. Very often this source of income represents in cash the chief source of income. As a matter of fact, many farmers in western Canada and in my area admit that if it were not for their jobs outside the farming industry they would not be able to remain on the farm.

I should like to speak for a few minutes on the problem of capital gains as applied to farming. As a broad, general philosophy I believe a capital gains tax is really more important to the farming industry and will have greater impact there than on any other segment of our economy. I believe it is important to recognize that, because of the peculiarities of the agricultural industry. It has been said that over the years everything in the capital gains field had been narrowed down to include all groups except the stock market and the farms which had been virtually cut out. I think this is probably reasonably accurate in a general way. A person might sell a house once, but if he sold it a second time the revenue people would be around and would say he was in the business of buying and selling. Only in the stock market would the capital gains not apply, and also to a large extent in farming.

I think people who have stocks may well be able to cope with the capital gains within reason, but I suggest a farmer would not be so successful in coping with the situation. I believe this is a very serious problem and one we should take a good look at. As the hon. member for Crowfoot said, I do not think we should look at capital gains in respect of farming without comparing the situation in the United States. In Mr. Nixon's surcharge episode we have an example of how important it is to have our tax structure competitive with the tax structure in the United States.

Mr. Nixon said he intends to turn the balance of payments around in favour of the United States by reversing the trend in respect of the \$13 billion. He expects the farmers in the United States to be one group of people who would reverse this trend. I believe with that in mind we must look very closely at our policy to make sure our