Capital Gains Tax

The discussion paper also points out that because capital gains taxation is so closely interrelated with other provisions in the tax law, a selective exemption could not be introduced without complex changes to the existing rules. Because of this, the paper concludes that "if incentives are to be provided to certain sectors of the economy, it might be more efficient and simpler to do so through an expenditure program or a subsidized loan".

These considerations I have mentioned are not irrelevant to discussing the proposals by the hon. member for Lethbridge-Foothills (Mr. Thacker) to exempt bona fide farm land from capital gains taxation. The importance of taxation of capital gains on farm land should not be overestimated. First of all, capital gains on the farm home itself is exempt, just as it is for any taxpayers' principal residence. Second, as in all capital gains, only half of the gains is subject to tax. I would suggest that the first point with regard to the farm home is contrary to the implication which was left by the hon. member for Lethbridge-Foothills with regard to his previous discussion on the impact on farm residents versus urban residents with regard to the farm and to the home.

Third, if a farm property is passed down within the family, as the hon. member has pointed out, to a child or to a grandchild, there is a deferral of tax on any capital gain until such time as the property should be finally sold under taxable circumstances. This, of course, means an indefinite deferral so long as the farm remains in the family. The hon. member for Lethbridge-Foothills has pointed out a very interesting point with regard to the anomaly which might be created with reference to the manner in which this particular deferral has an effect on the taxable status of the child as opposed to the original farmer.

In the event that the farm is sold so as to generate taxable capital gains, the law provides methods for reducing the impact of the tax. It is important that these be looked at very carefully. The farmer can, for example, invest the proceeds in an income-averaging annuity contract. By this means the taxation of capital gain is spread over the term of the annuity and the taxpayer is not pushed into a significantly higher tax bracket, as would be the case if the entire gain were taxable in the one year alone. Alternatively, if the proceeds from the sale are received in instalments over one year, only a portion of the capital gain would be taxable in the year of the sale. Therefore, a farmer might be wise to sell the land on a contract whereby payment would be received over a period of time. In that case the remaining portion of the gain can be deferred until the proceeds are actually received. Because of these provisions the tax is levied only when funds are available to pay the tax.

These tax deferrals, whether due to transfer of the farm within the family or to spreading out the receipts from the sale, can be very valuable financially to the farmer. For example, assuming an interest rate of 10 per cent, a one-year deferral is equivalent to excluding 4 to 5 per cent of the gain from tax, and a 25-year deferral would be equivalent to virtually complete exemption of the gain from any tax whatsoever.

• (1720)

These facts should be borne in mind in considering the proposal before us for complete tax exemption of capital gains on farm land. I think all hon. members recognize the forcefulness of the argument that, for many farmers, their farm is their retirement pension. During their productive years, the farm family invest their money and muscle in building up the value of the property, with the idea that when they retire the capital value will support them through retirement and, with luck, even provide an estate for survivors. What is not widely recognized, however, is the extent to which this worth-while goal is helped and assisted by the existing tax rules.

We are familiar with Registered Retirement Savings Plans and registered pension plans, through which employees receive valuable tax concessions to help them save for their retirement. The fact is that the tax treatment for farmers, and other unincorporated businesses too, provides tax treatment that is at least equally advantageous. In both cases, what happens is that pools of funds for retirement are built up out of untaxed income during the working years of the employee or the farmer.

In the case of employees, their contributions to RRSPs and/or registered pension plans are deductible, subject to annual limits, and income earned in these plans is non-taxable until it is finally withdrawn. In the case of the farmer, the increase in the farm's capital value, as it accrues over the years, is not taxable.

Upon retirement, the employee's pension receipts are taxable at full rates. For the farmer, when his property is sold at retirement, only half of the realized capital gains is subject to income tax. And as I described earlier, the tax impact on the lump sum receipt of capital gain can be spread out over a number of years by means of an income-averaging annuity contract.

I suggest that it is clear from these facts that the tax system does not discriminate against the farmer, in comparison with employed workers, when it comes to tax treatment of their two distinctive methods of planning their retirement incomes.

The same non-discrimination does not apply, however, to the proposal we are debating today. Farmers and unincorporated small businesses currently receive the same tax treatment in most respects. Many small businessmen, like farmers, must look forward to retiring on what they can realize from the sale of their business. Yet this proposal would discriminate in favour of farmers, and at the expense of the small businessman in another walk of life.

One answer to this objection would be to shrug and say, "Well, small business could be extended the same exemption from tax on capital gain as we propose here for the farmer." I submit that this situation simply underlines the difficulties we get into when we start creating exemptions and exceptions in the tax law. It is the difficulty of where to draw the line. And