

Income Tax Act

that he was a farmer in the first year. On the other hand, someone who had been carrying on a farming operation for years and whose income from farming had dropped, for some temporary reason, to 5 per cent of his total income in a particular year might still be allowed to continue on the basis that he was a farmer.

While I have the floor I must apologize to the hon. member for Crowfoot for an error I made in connection with timing as applied to herds in the United States. He was right in referring to two years. This is an instance where they did change the timing from a one-year period to a two-year period in their 1969 tax revisions.

Mr. Horner: I admire the honesty of the hon. member for making that correction. It used to be one year but, frankly, they found there was too much hanky-panky so they made it two years, which is a little more rigid. When the parliamentary secretary spoke of 12 months I said this would be better for the stock raiser. That remark led me to believe that the parliamentary secretary did not understand the concept at all, when he did not believe that 12 months was better than two years.

I understand that when the parliamentary secretary rose to speak he made the remark that I should keep my mouth shut and my ears open. That is an awful remark to make to a fellow by the name of Jack Horner. I well remember the old nursery rhyme: Sticks and stones may break my bones but names will never hurt me. I also recall the saying—it is one the parliamentary secretary should remember: Stones that are hurled with harsh intent, a man can use to build his monument. The hon. member can hurl all the stones at me he likes, but that will not further the debate or elevate the discussion in any way. Nor does it elevate the parliamentary secretary as the Parliamentary Secretary to the Prime Minister suggested should be done.

I am quite serious about this question of the application of the capital gains tax to the basic herd. Perhaps I should explain the effects a little further. What the basic herd does is to allow ranchers or dairymen to pay income tax on money as they earn it. When they retire or sell out they then sell the basic herd as a capital asset. They do not have to pay income tax on the sale of the capital asset. With the application of the capital gains tax they will have to pay capital gains tax on the increased value of the capital asset. But they will not be required to pay income tax on the capital asset. We have to take a look at the averaging principle to see how this applies.

In this tax legislation we are being presented with an averaging principle applicable to all people. The basic purpose of this principle is to take into account the application of the capital gains tax. How will the averaging principle affect the farmer? The parliamentary secretary says it is the same as it was. He says there are no changes. I ask this question. With the advent of the capital gains tax, is the averaging concept as useful to the man engaged in the livestock industry? That is the crux of the matter. The answer is no.

Let me give an example, Mr. Chairman. Suppose I am in the livestock business and I am getting along pretty well. I have had some good years and I average. Suppose I averaged last year the preceding five years right up until 1970. Let us suppose that through no fault of mine I suffer

a severe heart attack and have to sell out. I have a basic herd. Capital gains tax will apply on the basic herd but I will not have to pay income tax on the proceeds of the sale. Under this legislation, if it comes into effect, let us suppose a young farmer has averaged up until last year. He has no basic herd because he cannot build up a basic herd. He has averaged every year he can average. He has to sell out through no fault of his own. What effect does the averaging have? He cannot average because he has averaged all his five preceding years. This bill does not provide a forward averaging principle for a farmer. No way. Suppose he has suffered a heart attack and cannot work and his family has to be provided for. He cannot put the money into a government annuity. He has got to buy a house and live somewhere else. He has to pay. The averaging principle is not as good now with the introduction of the capital gains tax. The livestock man needs a basic herd concept as well in order to ensure that he can put aside money which will not be taxable in the event he has to sell out and still live. It is as simple as that.

I cannot understand the cold, heartless attitude of the government. While I do not like it, while I complain loud and long, I can understand their attitude toward the wheat farmer. They say: the farmers are producing too much wheat; we must get them out of business. It is a negative attitude but at the same time I can understand what they are thinking. I do my best to alter their thinking in this regard. But there is no similar situation involving the livestock men. They are not overproducing. Indeed, many consumers across Canada will say they are not producing enough and this is why the price of beef on the table is so high.

Why is the government trying to get rid of the men engaged in the livestock industry on the one hand while on the other the minister responsible for the Wheat Board says he intends to provide \$40 million over the next ten years to get more people involved in the livestock industry? Why are we taking these steps on the one hand and destroying the competitive position of the industry on the other? It is beyond my comprehension. I have tried and tried to understand it. I lay awake most of last night trying to figure out the reasoning of the government in this regard. The American rancher can put cattle into a holding position provided he has kept them two years. They do not call it a basic herd down there. In essence, Mr. Chairman, what he has is a capital asset, and if he sells out he is not subject to high taxation rates on the sale.

• (12:10 p.m.)

A little while ago the parliamentary secretary said that these things have to be considered. He said the United States farmers pay a higher rate of tax, that the top rate was 70 per cent. Who gives a hoot what the top rate is? Only a very few ranchers fall within the top rate, about one-quarter or one-tenth of one per cent. They are people like Bing Crosby, though he would probably regard his ranching operations as income from another business.

I am talking here about the heart and the guts of the ranching industry. Certainly the average rancher does not fall within the top brackets. Indeed, they are in a lower bracket than they are in Canada. Let the parliamentary secretary rise to his feet and correct himself in this