

Income Tax Act

which my hon. friend refers could perpetuate its eligibility for the low rate of tax simply by paying dividends.

Mr. Woolliams: That clears up something at least. One of the answers given by the parliamentary secretary was that he thought that was the intention of the act. I hope it is the intention also of Parliament; we cannot control the interpretations of the courts. There are many interested people in Alberta where large sections of farms and ranches are incorporated at the present time, as there are in Saskatchewan. Farming and ranching is a big operation, a "big small business", as it were. It has been natural for these corporations, not only from the point of view of protection in business but from the taxation point of view, to leave their capital in and to expand operations.

Am I to take it that the rules and regulations set out in sections 28, 29, 30, and so on, which apply to farmers, only apply to farmers and ranchers who are not incorporated? I believe that is correct. Second, do I take it that the tax structure relating to incorporated small businesses applies to ranchers also? My third question is, could they, then, go on, providing they are paying the shareholders dividends, for we might say forever without ever reaching the \$400,000 provision, or is there a time limit on it?

Mr. Mahoney: There is not time limit on this. To be absolutely clear on the basic herd point, if a farmer or rancher, incorporated or otherwise, wishes to establish a basic herd between now and the end of the calendar year, under the legislation he can do so.

Mr. Woolliams: That is the question I put and he has his experts there. Would the parliamentary secretary point out to me in this big volume the section which says that the basic herd provision applies? That is why I asked that question to start with. I appreciate it is a very difficult piece of legislation and I sympathize with him, but I want to put this to him. I should like to find out where it says in clear, unequivocal English that a small business corporation—which of course is what a ranch or farm would be—comes within the basic herd provision if they are incorporated. I should like him to read that part.

Mr. Mahoney: The first few words of section 29 reads as follows:

(1) Where a taxpayer has a basic herd of a class of animals—

The taxpayer can either be a corporation or an individual. The term under the Income Tax Act extends both to an individual and to a corporate entity.

Mr. Woolliams: We have that cleared up then. I hope those answers will not be the kind of answers we got from a former minister of health when we asked her on an afternoon similar to this whether Members of Parliament and others came within the Canada Pension Plan, and she said they did not. Then, we woke up the morning after the act was proclaimed and the regulations passed by cabinet to find an entirely different situation had developed. That is the trouble with this kind of tax law. As my good friend knows, legislation is always subject to the court's interpretation. A taxpayer may be a corporation under the act, but I should like to see it spelled out without any question that this law applies to the operations of a ranch or a farm that is incorporated. Then, we would know where we stood in that regard.

[Mr. Mahoney.]

This type of legislation is difficult for those engaged in agriculture. I think I know something about that having been raised in the prairie provinces and spent some time connected with farming operations, both as a farmer and as a lawyer practising in the city of Calgary. Prior to that time I was in Saskatchewan dealing with farmers and ranchers. As a result of my experience I got to know pretty well some of their problems, particularly from the income tax point of view. My concern with the method of debate this afternoon is that we are swatting mosquitoes when we should be belting horseflies. One of the things we are talking about is the basic herd. Under the old act this was treated as a capital asset. Under the new act, while it is true farmers can get on a cash basis, as the parliamentary secretary says, the real intention is to phase out the basic herds. He can shake his head but that is what he said, and finally it will work out that way. The basic herd provision will not apply to new farmers and ranchers. I do not think he can deny that.

I suggest that when we are talking about farming and ranching we should discuss all those things that apply to farming and ranching. One of the things that this act will do is this. There were members of the committee who said the white paper did not go far enough. These people really never explained to the farmers and ranchers that if it went further there would not be a farmer or rancher left. The fact is it went too far. We should be debating not only how farmers should pay their personal taxes when they are unincorporated or their corporate tax when they are incorporated, but we should integrate with this the debate on capital gains.

A member this afternoon talked about equating the value of land with the purpose for which it is used. Let us not fool around: when valuation day comes I think the valuation should be set on that day, applying the rules and regulations. There are various systems for arriving at the value, but whatever value is agreed upon between the department and the taxpayer as at valuation day, any capital gain made on the farm or on the ranch will be added to the personal income tax of the owners according to the formula, which is 50 per cent of the value. Then, you have the 25 per cent rule.

I ask these questions because of what I have heard said this afternoon in reference to the basic herd and the changes in the bill with reference to capital cost allowances and to trading in machinery.

• (5:40 p.m.)

These changes will make it more difficult for a farmer to remain on his ranch or farm and carry on the operation. I am very concerned about the situation in western Canada at this time because there is a large group of people who have operated farms and are reaching an age where they wish to either sell or turn over the farm to their children. In many cases this has been a husband and wife operation because it is difficult to obtain labourers in the fall of the year. What happens? They have built up this farming operation and then are subject to a capital gains tax. The formula is not the same as it is in the United States or in Great Britain. After the formula is applied to the top valuation, it is added to the income. I say the result will be that the family farm will be quickly turned over to the government or will be mortgaged to the government to