

*Income Tax*

Canada has targeted its auditors at those engaging in agriculture, particularly those whom they regard as suspicious. Under this blitz, known as Project L, auditors are fanning out across the nation and assessing some farms up to four years in back taxes. In my riding alone over 300 ranchers and families have been audited since the end of January and many of them will have to sell out.

This procedure is a direct assault on the Canadian agricultural sector and the family farm. This callous Government is vigorously enforcing an unjust and an ill-defined piece of legislation in order to fill its empty treasury, while at the same time kicking a good portion of the agricultural community when it is down.

Let me briefly outline how this situation arose. In 1952 the Government amended the Income Tax Act so that three classes of farmers were established for tax purposes. These were full-time farmers, part-time farmers and hobby farmers. Full-time farmers can write off 100 per cent of their losses. For part-time farmers, the amount they can write off is limited to \$5,000 a year. Hobby farmers cannot write off any losses against income, which is fair enough, I grant you that, Mr. Speaker.

Nevertheless, this section of the Income Tax Act has not been amended since it was introduced in 1952. The \$5,000 a year deduction allowed to part-time farmers has not been updated to reflect inflationary increases in the cost of production over the past 30 years. If this item had been indexed, Statistics Canada estimates the deduction would be worth at least \$20,000 a year. This, however, is only part of the problem with Section 31 of the Act.

According to Mr. Doug Eckel, a chartered accountant who was interviewed on March 13 on CBC's "Country Calendar", the wording of Section 31 is so ambiguous that only the original draftsman of the Bill could be certain of its meaning. He said that it is impossible accurately to interpret the intent of Section 31 and that it should be cleaned up, or better yet dropped entirely from the Income Tax Act. This poorly drafted legislation has allowed Revenue Canada to determine arbitrarily into which of the three categories a farmer falls.

As an example of just how arbitrary this ruling can be, I discovered when I returned to my riding last week that Revenue Canada's auditors are now using a figure of 100 beef cows to determine if a rancher is ranching on a full-time or on a part-time basis. In other words, if a rancher has less than 100 cows, he faces being reclassified as a part-time rancher, regardless of any other factors. According to Statistics Canada, the average size of a Canadian beef cow herd is 30.8 cows. It takes over three Statistics Canada ranchers to make one Revenue Canada rancher. Clearly Revenue Canada's determination of what constitutes a full-time rancher is at odds with the Canadian reality as reflected by the Statistics Canada figures.

Originally, the intent of Section 31 was to prevent people from using a farm as a tax dodge. However, because of the ambiguous wording, Section 31 is now being used against quite legitimate full-time farmers. What has really complicated an

already impossible situation has been that, because of the recession, farmers have been forced to find employment off their ranches and farms to help cover the cost of operating. There are now about 125,000 farmers in Canada who have off-farm jobs. For a variety of reasons, this often results in the farmer making more from his off-farm job than from this agricultural operation. At this point, Revenue Canada reclassifies him as a part-time farmer in spite of the fact that his other occupation is merely an attempt to keep his operation solvent. This is grossly unfair and leads to a "heads the tax man wins, tails the farmer loses" proposition.

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If a farmer takes a job off the farm to help pay his bills, he will then be regarded as a part-time operator who is only eligible for \$5,000 a year deductions. As well, some farmers are finding that they are being reduced from the second category to the hobby farm classification, which is even worse. In many cases, the only option left is to sell out to pay the tax bill. That is an alternative that is readily endorsed by the tax auditors. If a farmer has the audacity to suggest to the auditors that he would like to take the issue further and appeal it, the auditors tell him that it will cost too much and would be cheaper just to pay the tax bill and forget it. That is the kind of advice farmers are receiving from Revenue Canada.

To an individual who regards himself as a farmer or rancher, this is a disastrous blow which is akin to drought, disease and fire all wrapped into one. It is just as dramatic as a prison sentence for a born and bred farmer to be forced to sever connections with the land and move into town.

One of the greatest problems faced by farmers when dealing with Revenue Canada auditors is that very few auditors even have a basic understanding of agriculture. Revenue Canada does not hire or train auditors who have specific expertise in agriculture. It is possible for an auditor to be auditing a manufacturing company one day, a local pharmacy on another day and a ranch the day after. As a result, most auditors are unqualified to pass judgment on the viability of agricultural operations.

One of my constituents graphically described this lack of knowledge of Revenue Canada auditors in very telling terms. Auditors came to his ranch during the spring thaw to look at its operation and the books. The owner happened to look out of the window and saw one unfortunate auditor trying to pick her way through ankle deep mud wearing high-heeled shoes. He said that he almost felt sorry for her. The auditors did not even look at the owner's books but simply looked around the yard adjacent to the house. My constituent volunteered to take the two auditors on a thorough tour of the ranch. However, they declined.

A neighbour of this constituent said that he had observed the auditors earlier in the day driving slowly past the ranch attempting to view the property from the main road. How could people possibly assess an agricultural operation without being provided with a thorough tour of the premises by the