

*Income Tax*

The Hon. Member for Vancouver Centre, who just preceded me asked a number of questions that I thought should have been asked and that I would have liked to have asked myself, but as one who, 25 years ago, had trouble completing my income tax form when the Income Tax Act was reasonably prepared, by someone with sanity, I have a great deal of trouble with the new one, with some of these new inclusions.

● (1710)

We are told that Subclause 18(3)(1) requires soft costs incurred during the period of construction, renovation or alteration of a building to be capitalized rather than deducted on a current basis. We did not get a reasonable explanation as to why this was being done, at least not one that I could understand. I thought the most obvious answer would be that it would produce more revenue for the Government. That has been the reason for most changes in the tax law in the short time I have been here.

Interpretation Bulletin IT-3-41R stated that you can avoid most of the impact of this Clause if you plan your expenditures properly. What is the value of creating a concentrated confusion if at the same time you state that you can get around this if you plan properly? Will this not be an added burden for those we rely upon to help us get out of the present economic circumstance? We should not be adding burdens or creating burdens for them.

Why do we say on one hand that people should capitalize these soft costs, and then send out an interpretation bulletin stating that they can get around most of them if they plan properly?

**Mr. Fisher:** Mr. Chairman, when the Hon. Member was referring to a crummy speech by the Hon. Member for Mississauga North, he was confused. It was the Hon. Member for Mississauga South who gave the crummy speech. When speeches come from the North, they are good; when they are crummy, they come from the South.

I must say that the Hon. Member was far too modest about his activities 25 years ago. I had occasion today to climb four flights of stairs with him. It is obvious that 25 years ago he worked pretty hard because he is still fit after all that exercise. Therefore, we take his modesty about 25 years ago with a grain of salt. He is obviously a hard-working guy.

The Hon. Member asked why we created this confusion. I refer him to the working session in the Finance Committee over the September period when there was quite a bit of discussion about this. When the Hon. Member looks at that report, he will know that one of the concerns that developed there was the opening of a new and unjustifiable tax shelter for many people.

The amount of tax being avoided was getting rather high. It was not related to genuine activity. There was a real incentive to add on more and more costs and call them soft costs. Our officials were there and they can correct me, but we heard examples of people able to get up to 30 per cent of their project called soft costs. Obviously that was not the intention. If 30 per cent of a massive project can be called a soft cost and

written off so quickly, it is a real benefit that is not construction-related but rather is tax-related. The rest of us must pay for them. We are asking whether these are activities that are genuinely construction-related. If they are construction-related, they should be treated like all the other construction-related costs. If they are not construction-related, if you plan ahead and you find that you have some unusual costs, then perhaps it should be a deduction rather than a capital cost. I ask the Hon. Member to bear in mind our concern that perhaps the soft-cost category can become more of a tax shelter than a construction activity. As such, we have to be alert and try to deal with it.

Our good friend from York East raised an important question, and I would like to take the opportunity to answer it very quickly. He indicated that if somebody has an employer mortgage at 3 per cent and the deemed rate is 16 per cent, is the individual taxpayer stuck with a permanent 13 per cent benefit or a floating benefit that is adjusted whenever the prescribed rate floats? I would answer him that the taxpayer is not stuck with a permanent benefit. Rather, when the prescribed rate drops, the amount of the benefit will drop as well.

I refer the Hon. Member to the Income Tax Act, particularly subsections 8(4)(1) and (6), which indicate that when the prescribed rate goes up, the benefit does not go up, but when the prescribed rate goes down, the benefit does come down. We relieve taxes, but do not add on. All of this is described in lurid detail on page 74 of the explanatory notes published by the Minister.

**Mr. King:** Mr. Chairman, I guess that is a good example of what I was talking about previously, a man using up half my time to answer someone else's question. I hope that will be charged to the time of the Hon. Member for Winnipeg North.

I want to pursue this a little further. There is a definition of when construction is completed, but no guidance as to when construction commences. Can the Minister explain in simple terms when costs commence, such as in land preparation or soil testing? At what point does construction commence under the definition of soft cost capitalization? We know when it ends, but when does it start?

**Mr. Fisher:** Mr. Chairman, the soft costs start when the charges start. For example, one of the largest costs usually categorized as a soft cost is interest. When you incur interest, you obviously incur a cost. For example, interest charges on concrete are incurred when you buy the concrete and owe the bill. Most of these costs in construction are very clearly defined by the people involved.

**Mr. King:** Mr. Chairman, what about soil testing for construction purposes, and compaction tests? Do you take those into consideration? This might be done a year before the engineering, planning and when the architect begins his work.

**Mr. Fisher:** Mr. Chairman, I am sure the Hon. Member could give me a list of such expenses. I would be happy to pass them on to Revenue Canada for an interpretation. I do not