

to where the taxpayer leases the house under a situation contemplated by this amendment, but where the taxpayer has put the house into a personal corporation in which there are other assets represented by shares? The difficulty here is how to allocate the transmission of the house against the shares. In administrative terms, it is a potential nightmare. After all, the shares of the corporation represent all the assets of the farm, the land, the principal residence, depreciable property, whether this be the barn or the silo, and the animals. In the case of a small business having a personal corporation, those assets against which the value of shares has been calculated might represent a so-called principal residence, stock in trade, inventory, goodwill and a number of other items.

The act is quite clear at the moment. The personal residence, in order to be given capital gains-free treatment, must be owned by the taxpayer, and the taxpayer is the individual who dies or sells. It becomes a very difficult problem if it is going to be allocated to a corporation, because here again there must have been other tax reasons for having the residence in the corporation property. Surely the answer is to take the principal residence out of the corporation, whether it be a small business or a farm, and allow the residence to be treated as the act expected it to be treated.

Mr. Blenkarn: The minister's explanation does not have any realism. After all, through all these matters of taxation we go on the basis of assessment. Usually in a real estate transaction, if there is no appointment between land, buildings and chattels, the minister's officials will always take the assessment made by provincial or municipal authorities and the like. There is really no problem for the minister to assess the value of a residence included among the buildings of a farm corporation, as opposed to commercial valuation of stock in trade, chattels and the other things that he mentioned.

The problem is that the act refuses to give small businessmen—this includes the farmer and the guy who happens to live in a house from where he runs his trucking business, his garage or service station—any equality with the person who may be an apartment owner and who works for a wage. The government must come to grips with this problem and treat small business equitably. This is a serious problem. On that basis the clause needs to be redrafted to take into account the problems of small business. There is no problem for the assessors. In the past they have had no problem determining the relationship between chattels and land and buildings nor, indeed, has the minister. It has not presented any problems to his office before, and it should not now.

• (2120)

Mr. Hargrave: Mr. Chairman, I suppose the point of my comment about the family farm corporation is that I look upon this as a different structure entirely from the business corporation that I think most people have in mind. In western Canada, our provincial governments recommend that the family farm be incorporated into this type of set-up in order to carry on a viable farming unit. There is no reason why the family farm corporation concept should be treated, in terms of definition, as an individual

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family farm for purposes of the residence clause and for the five-year averaging.

Mr. Baker: Looking at this clause, I think there is no doubt that there is no discrimination between businessmen and farmers. However, between businessmen and farmers as a group, in the circumstances of this section, and all other types of owners of residences there is in fact discrimination which I do not believe the minister intended.

Another comment I wish to make on the rural aspect is to point out that if a farmer chooses to incorporate his farm and take advantage of the law for an individual owner of a principal residence, it is necessary in the province of Ontario, and I am sure in other provinces, that he obtain a severance of the house and the acreage from the farm and then transfer the farm to the corporation, thereby holding the piece of land with the house on it.

As a matter of fact, at this time in all provinces which have jurisdiction in these matters as a very real onus is placed on the land owner to justify the severance of the land when he makes application for it—particularly in Ontario. I think the suggestion of my friend from Peel South is worthy of consideration, having regard to the peculiar situation in which farmers find themselves in this age of urbanization as a result of the difficulties of land severance. There is a discrimination in the section which I am sure the minister did not intend. I would support him if he saw fit to take this clause back for consideration in order to find some way out of the dilemma. That would be a service to the people who find themselves caught on the horns of this dilemma.

Clause agreed to.

On clause 15—*Bourses d'études de perfectionnement, etc.*

Mr. Turner (Ottawa-Carleton): This is an amendment to the French version, paragraph 56(1)(n). It would make the underlying changes to the text.

Clause agreed to.

On clause 16—*Estate tax applicable to certain property.*

Mr. Turner (Ottawa-Carleton): This amendment would correct a technical feature of paragraph 60(m) which now prevents an intended deduction for taxpayers. Paragraph 60(m) is intended to allow a deduction from certain kinds of income, such as a pension, in respect of estate tax and provincial succession duties that have been imposed on the value of the right to this income. The present wording of paragraph 60(m) makes the deduction dependent upon the property having been taxed under the Estate Tax Act. This makes the paragraph inoperative with respect to property passing as a result of death after 1971 when the estate tax ceased to apply.

The amendment would divide the present paragraph 60(m) into two paragraphs. Revised paragraph 60(m) provides a deduction only in respect of estate tax, and hence applies only to property that was part of a pre-1972 estate. It also drops a reference to the income averaging annuity contracts which did not exist prior to 1972. The new paragraph 60(m.1) provides a deduction in respect of provincial succession duties.