

## AFTER RECESS

The committee resumed at 8 p.m.

**The Assistant Deputy Chairman:** Order. House again in committee of the whole on Bill C-170, to amend the statute law relating to income tax. The committee is on clause 7.

On clause 7—*Loss from farming where chief source of income not farming.*

**Mr. Lambert (Edmonton West):** Mr. Chairman, I had the floor when the committee recessed at six o'clock. I wonder whether the minister feels it necessary to establish some guidelines here. Section 37 of the act does refer to scientific research. Whether it is sufficient to meet the definition of section 31 and the amendment proposed by the minister, it does use the phraseology "scientific research". And, of course, it makes reference to section 37. I ask as a final question: Is there a ceiling on the loss?

**Mr. Turner (Ottawa-Carleton):** Not on scientific research, Mr. Chairman.

**Mr. Lambert (Edmonton West):** What about guidelines, or does the minister feel they are not needed?

**Mr. Turner (Ottawa-Carleton):** I would think the definition found in section 37 would be a good analogous reference. If we find, on application of the measure, that we need guidelines, I suppose we can provide them.

**Mr. Ritchie:** I should like to ask the minister what kind of person would qualify as an individual farmer. For instance, would he have to be connected with a university, or would a person growing specialized seeds fall under this definition? Who would make the decision—the Department of National Revenue?

**Mr. Turner (Ottawa-Carleton):** First of all, by the amendment anybody would qualify whose chief source of income was neither farming nor a combination of farming and another source of income and who was engaged in scientific research involving expenditures. Section 37 of the act sets out what "scientific research" means. Anybody who meets the definition of these two sections would qualify without limit.

**Mr. Ritchie:** Can the minister cite an instance where this has occurred? Perhaps that would clarify the matter.

**Mr. Turner (Ottawa-Carleton):** The variety is immense. Take somebody in Calgary who operates a ranch part-time but whose major income comes from oil. He would only be entitled to a \$5,000 deduction on the land of his farm, because he is not in the business of farming. On the other hand, if he is interested in animal diseases or some of the toxic aspects which affect cattle and buffalo herds in Wood Buffalo National Park and spends \$25,000 a year trying to develop a preventative because he is interested in the breed and in agricultural research, then he would be entitled to a \$5,000 loss on farming, but only to that.

We wanted to plug a limitless deduction against other income where a man was not a legitimate farmer but was a hobby farmer. Because of the social and agricultural advantages of engaging in research in the agricultural field, on the representations of a number of members,

*Income Tax Act*

including the hon. member for Edmonton West, we felt it was good policy to encourage agricultural research. If the expenses were legitimate and were incurred for scientific research within the definition of section 37 of the act, then they should qualify. It is almost limitless.

**Mr. Ritchie:** Mr. Chairman, I do not believe there has been any change in the deductions of \$2,500 and \$5,000 for a long time. They are probably too low by present day standards and should have been raised. The structure of farming is changing. Most farmers now have a double income because they farm part-time and have income from another source. I think it is important that agriculture have some more capital-injected income.

At the present time, injected income is largely derived from government loans. It seems to me there is a place for individual entrepreneurs who would invest in bona fide farming. The figures of \$2,500 and \$5,000 were set some time ago; they could well be doubled and still not be excessive. One of the difficulties, of course, would be to distinguish between bona fide farming and so-called hobby farming. I have heard of cases where a farmer has had to take other work. He has been classified as a hobby farmer. I think such instances are quite genuine.

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I think the Department of National Revenue has been hard in the interpretation of this section and perhaps more thought should be given to its administration, because more and more people who are engaged in farming are part-time farmers; either they or their wives are bringing extra money from other sources into the family. I urge the minister to consider raising this deduction for a non-farmer or for the person whose income is not totally derived from farming and to define, in conjunction with the Department of National Revenue, who is entitled to the deduction and who is not.

**Mr. Nystrom:** Mr. Chairman, may I ask the minister one or two questions? I think I may have missed some of his previous explanations relating to deductions for scientific research. How much can be deducted for scientific research and who may make such deductions?

**Mr. Turner (Ottawa-Carleton):** Anyone who is not in the business of farming, or anyone whose principal source of income is not farming is entitled to deduct the loss from the farm that he runs on the side, whether as an interest, as a hobby or for pleasure because he wants to get out of the asphalt jungle. Because this was in the past used by some urban taxpayers as a way of artificially reducing their income, there was a limit of \$5,000 placed on the amount that could be deducted.

All a person need do in order to qualify, is not to be principally in the business of farming. He may deduct \$5,000. But if he is engaged in scientific research within the meaning of section 37 of the Income Tax Act, then in addition to the \$5,000 he is entitled to all that expense which could be classified as coming under legitimate scientific research. His activity may consist in improving animal stock, conducting research into animal diseases, improving grain strains, and what have you. The purpose of that, in terms of national policy, is to encourage agricultural research. Not only have representations come