

*Income Tax Act*

the committee. There have been interjections from either side, and possibly the remarks of the hon. member prompted the intervention by the Minister of Finance. Neither side is helping the Chair.

May I remind hon. members that we are now engaged in considering section 28 which deals with the computing of farm business income, with section 29 which has to do with the basic herd, with section 30 which provides for deductions in assessing taxable income for land clearance, levelling and drainage, and section 31 which is concerned with losses which may be deducted when computing the income of a farmer. I have been very lenient with the hon. member who has the floor but I would now ask him to be relevant to the subjects we are discussing.

**Mr. Nowlan:** I shall return more particularly to the four sections now under discussion, Mr. Chairman. As Your Honour has pointed out, the first has to do with the general subject of computing farm income, the transition from cash system of accounting to an accrual system. There will certainly be pressure upon the farmer to move from one system to the other. Section 30 deals with levelling land, and tile drainage. The Minister of Finance should be careful when dealing with this section. I would suggest he clear the land, level the land and put in some tile drainage so that he can take his remarks, bury them and drain them into a cesspool. I am sure we could put the Minister of Finance on a hobby farm so that he could obtain some income from it and, as a result, take a personal interest in this legislation.

With those frivolities disposed of, I should like to discuss the proposed changes very briefly. It is quite apparent that we are being asked to abandon the basic herd concept for no understandable reason. The Senate committee, in a unique document which it issued on November 4 in anticipation of the bill passing this House, stated it was aware of no reason for not continuing to recognize the basic herd for what it is, namely, a capital asset.

The Cattlemen's Association also questions, in its brief, the decision to phase-out the breeding herd concept despite the difficulties it might have involved with provincial administration. They maintain the principle that the herd is a capital asset to be preserved. Whether we call it a basic herd or a capital asset, there should be some recognition that these animals are a capital asset on a farm in the same way as a piece of machinery and that the same rights and rules ought to apply to it. There seems to be no justifiable explanation of the government's position, and I hope the minister or the parliamentary secretary will be able to fill in the gaps in this respect.

Under the transition rules, basic herds which have already been established will continue to be treated as capital assets to the extent that gains accrued at the commencement of the new system will not be subject to tax. There can therefore be little point in treating gains accruing thereafter in the same manner as the profits on the sale of inventory or stock-in-trade. The facts require the basic herd to be regarded as analogous to other capital assets of a farmer such as land and orchards and the fixed capital assets of any other business.

A farmer wishing to acquire a herd or a major addition to an existing herd takes money out of his capital. To proceed on an accrual basis with an annual valuation of

the herd is often impractical. If a farmer is on a cash basis of accounting he will experience losses in a number of years for which the averaging provision will not fully compensate.

**An hon. Member:** You are reading.

**Mr. Nowlan:** Yes, I am reading. These are very explicit notes. I suggest that all hon. members when they speak on this bill on something called a capital herd, straight-line depreciation and all these other complex forms of legislative poetry, should stick to clear notes, otherwise they will wallow around in a swampland just as these 700 pages wallow around in a swampland. I return to my basic notes. The failure of the government to treat a unique capital asset of a farmer, that is to say, his animals, as a form of capital subject to the usual rules respecting the taxation of capital gains, must therefore be regarded as discriminatory. The young farmer, especially, should be permitted to establish a basic herd and his expenses in this direction should be regarded as a capital investment.

I hope the Minister of Finance will contribute in a constructive way to this debate and explain how a young farmer, not necessarily one young in years but a farmer who wants to become established and acquire a basic herd, will be able to do so when the herd is no longer considered as a capital asset. I suggest that under the conditions now proposed he will not be able to do so. If the basic herd concept is abandoned he will be locked out and those farmers who have already built up basic herds will be locked in. There will be no way in which a new farmer, be he young or old, can move into this very necessary area.

I repeat that the expense incurred by a young farmer in establishing a basic herd should be regarded as a capital investment. The proceeds of sale from that basic herd cannot equitably be regarded as income for the year in which he sells. If the present tax proposal is not modified, the farmer will realize the proceeds of sale as income immediately on disposal of the herd. Farmers who wish to build up their herd year by year, reporting the cost of acquisition as income as they do now, will not under the proposed changes be able to enlarge their capital base in animals.

I suggest this will have a restrictive and negative impact on the agricultural community rather than a positive, constructive impact that the minister and some of his spokesmen have maintained it embodies, and that this provision in particular will have a depressing effect on agriculture. I would appreciate the minister or the parliamentary secretary explaining how a young man will be able to establish a new herd under the provisions proposed. That, Mr. Chairman, is all I have to say about the basic herd concept contained in section 29.

● (8:50 p.m.)

Coming to the next section under discussion, section 31 dealing with so-called hobby farms, even though the definition is rather loose—

**The Chairman:** Order. I regret to interrupt the hon. member but I do so to advise him and the committee that his time has expired.