the 1971 value is no longer enough for the selling farmer to purchase a city home and to have a small nest-egg to cover his or her pension years.

In the example I quoted above the farmer selling a section of land at 1971 value of $100 per acre would receive $64,000. Some retirement! We know that farmers have no indexed pensions to rely on like the rest of us have. They must rely on the sale value of their land. In order to retire to town, to purchase a home and to have a nest-egg, $64,000 is not enough. If the transfer is for a price greater than the 1971 value, the farmer must pay the tax or else the child gets a double penalty, that is, the child pays more than the 1971 value but ultimately must pay tax on that same increase between the 1971 value and the sale price.

• (1710)

Referring again to my first example, the farmer could sell to a child for $300 per acre and receive that money, but he could elect, for tax purposes, to transfer at the 1971 value, namely, $100 per acre. The farmer would have $300 times 640 acres or $192,000 with no tax. But the child would have paid $192,000, and if he or she had to sell the next day for health reasons or whatever, would receive that same amount of money but would have to pay capital gains tax. The child would have to add 640 times $200 per acre or $128,000 to his or her taxable income. Hon. members can see that this result is absurd.

Therefore, what happens in actual practice is that farmers and families choose to increase the selling price, sell to the highest bidder, pay the tax and be done with the government. However, this keeps out the new, young family farmer, as I mentioned earlier, with all the disastrous long-term consequences for efficient food production.

Third, if farmers have more than one child but only one child continues to farm, how does the farmer leave the farm to the farming child at the 1971 value and yet still leave an equal share of the present estate value to the other child? It is quite impossible from a practical and common sense point of view. It can be done with very complicated legal agreements with charges being attached to the land to be paid by the farming child, but these charges block the placing of mortgages, interfere with bank financing, usually have interest attached which is a substantial burden, cannot adequately protect the farming child from bad crop years, and also affect close family bonds and ties of love and affection. In fact the farmer again usually lists the land, sells to the highest bidder and is gone. Once more, the family farm has disappeared.

Therefore, Mr. Speaker, it is clear to me that (1), there should be no capital gains tax on bona fide agricultural producing land; (2) if the tax is to remain, then there must immediately be a change of the valuation date to at least 1974; (3) there must be indexing of value against inflation, and (4) the government must develop specific policies to retain the family farm and too, indeed, expand the family farm onto the approximately 25 million acres of presently marginal land that lies in a band across the northern limit of our current cultivation. This in itself would be an enormous project of national unity which would go a long way toward settling new Canadians and redirecting unemployed industrial workers into farms where they could own their own land and work for themselves. It would also promote the manufacture of small, efficient tractors, combines and other agricultural machinery, hopefully in Canada. Hon. members can see that this idea alone would retain the concept of the family farm which leads to family oriented communities and also results in thousands upon thousands of jobs in central Canadian manufacturing.

In conclusion, I again submit that a capital gains tax on bona fide farm land is not in the national interest, and I call on hon. members present to pass this motion so that the Department of Agriculture and the Department of Finance will have an instruction from Parliament to bring forth a strategy to rectify this serious and dangerous policy.

**Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance):** Mr. Speaker, this motion comes up for debate at an appropriate time because on November 21 the Minister of Finance (Mr. MacEachen) tabled a discussion paper reviewing capital gains taxation in Canada. It provides a most valuable background for our debate of this particular proposal which calls for, as the hon. member has indicated, the abolition of tax on capital gains arising from bona fide farm land. On the whole, that discussion paper makes a most useful contribution to public discussion on our tax system.

The paper reminds us, for example, of the importance of the decision which was taken in the early 1970s to apply the income tax system to capital gains, not only because of the revenues which were involved, although those are substantial and are an estimated $1 billion, for example, for this year for the federal and provincial treasuries, but the paper also demonstrates that capital gains taxation has done a great deal to improve the fairness and the progressivity of the tax system. If taxation is to be based on the ability to pay, then capital gains cannot be ignored. The discussion paper points out that taxpayers with annual earnings of more than $50,000, a group representing less than 1 per cent of all Canadian taxpayers, received in 1978 more than 40 per cent of all net taxable capital gains reported that year.

The paper also serves as a reminder of the problems that were created for our tax system when capital gains were generally excluded from taxation—the great outlays of time, money and efforts to avoid tax by converting business income or dividends into capital gains as was the case prior to the introduction of the capital gains tax. No other area of our tax system provoked more litigation in the courts or created more uncertainty for taxpayers about the tax consequences of their business decisions.

Furthermore, the difference in tax treatment between business income and capital gains created economic distortions in the market place so that, instead of resources being invested in the most efficient and productive way, they tended rather to be invested where they could get the best tax break.