

Income Tax Act

• (5:20 p.m.)

I might say the same about farm residences. There has been a marked trend in my part of the country for people to come from the city to seek an old stone house in which to live. There are a lot of these houses in my area. For example, two ladies driving along a road saw a beautiful stone house for which they were willing to pay \$35,000. This was for the house alone; they did not want the farm. Where does it leave the fair operation of the act when cases of this kind occur, as they do with increasing frequency, unless a means is found of differentiating between the value of the farmhouse and the value of the farm itself? How will capital gains be assessed when the tax inspector comes round if the farmhouse has been sold for more than the whole farm is worth? It will create entirely false values, the consequence of which farmers who are continuing to operate their business will have to face. I can see this proposal creating many serious problems without thought of their solution. Farm values will tend to go way out of line and I am afraid the piece of legislation before us is far from helpful.

It is interesting to note that the Banking, Trade and Commerce Committee of the other place was not too happy about the effect of these sections upon farmers. We have been talking about the proposal to end the basic herd concept, something our farmers have got used to and been able to live with for many years. Here is what the Senate committee had to say about that proposition:

Under the proposed legislation, it is intended to abolish the concept of the basic herd and to treat such herds as inventory or stock-in-trade. Under the transitional 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. However, gains accruing thereafter will be treated in the same manner as profits on the sale of inventory.

Your Committee is not aware of any reason for not continuing to recognize a permanent herd for what it is, namely, a capital asset.

And here is the recommendation made by the committee in the other place:

Your Committee recommends that provision be made in the proposed legislation for the continued recognition of a farmer's permanent herd as a "basic herd" and, therefore, as a capital asset.

In other words, the committee does not agree with the legislation we have before us. They advise that the existing act should not be changed in this respect.

A few moments ago I was talking about the sale of farm homes and farm land. Here is what the committee of the other place had to say about that particular aspect:

Your Committee is of the view that farmers occupy a special position in the economic structure of this country. Over the years, this sector of the economy has become increasingly subjected to pressures which have led to a profound change in the nature and use of farm lands.

Your Committee is concerned by this trend and believes that measures should be taken to reverse it.

And here is the recommendation which is made in this connection:

Your Committee recommends that consideration be given to extending the rollover provisions to permit land together with any other capital property which is used by an individual in a farming activity to be transferred, either during lifetime or on death, to lineal ascendants or descendants without being subject to capital

gains treatment under the deemed realization provisions. This exemption should only be available in those circumstances where the transferee or transferees continue to carry on the farming activities.

I feel that agriculture is of special importance to Canada and that we should do everything we can to encourage farmers to stay on the land. We should encourage their children, who have been trained as junior farmers and 4H club members, to follow in their father's footsteps. I do not feel the legislation before us offers any incentive or assistance to the farmers of Canada, so I would suggest these sections be amended along the lines proposed by the committee of the other place in order that the farm industry might be brought out of the uncertain period through which it is presently living, and farmers be able to go forward with hope, knowing that their future is in good hands.

Mr. Woolliams: Mr. Chairman, before I say a few words on this section I should like to put two or three questions to the parliamentary secretary and his experts. May I premise these questions by saying that a number of farmers in Alberta are incorporated as small businesses. My first question in this regard is as follows: Suppose the new act is passed. If a farmer incorporates, will he be taxed in accordance with the rates and allowances which govern small corporations or will the rates and allowances which apply particularly to farmers apply to him?

Mr. Mahoney: The corporation would be treated as a small business in the same way as any small corporation carrying on another business.

Mr. Woolliams: As the parliamentary secretary knows, there are a lot of big ranchers in Alberta who are incorporated, because they can run a better business operation and come up with a better tax picture. Would they be entitled to a basic herd? As I understand it, the basic herd rules and regulations apply only to a taxpayer who is unincorporated.

• (5:30 p.m.)

Mr. Mahoney: It is the intent of the bill before us to phase out the basic herd commencing the first of next year. I should like to add to my previous answer regarding the incorporated farm that a corporate farmer is entitled to calculate his income on a cash basis rather than on an accrual basis if he chooses to do so.

Mr. Woolliams: I appreciate that, and I understand the small business provisions, but what we are really saying is this: As I understand the small business deduction provision, subject to rigidly prescribed conditions, private corporations are entitled to a reduction on the rate of tax on the first \$50,000. This is phased out if that particular corporation has produced a taxable income of \$400,000. In eight years, that is eight times \$50,000, is \$400,000. This corporation then moves to a rate of 50 per cent of its net income, just as a big corporation like Imperial Oil and other corporations like that.

Mr. Mahoney: Provided that they did not reduce that accumulation of earnings by payment of dividends. If such a corporation chooses to pay out dividends, as the years go by that money comes off the amount which goes to make up the \$400,000. So, a corporation of the nature of