

Hon. Mr. BENCH: If I may, Mr. Hannam, I should like a little help from you on item No. 1 in your brief. The proposal is that the income of farmers for income tax purposes be averaged over a period of four years. First of all, may I ask if that proposal contemplates a cycle in which the first three years are losses and the fourth year is a profit year?

Mr. HANNAM: No, not at all. A moving average would apply equitably whether there are gains or losses.

Hon. Mr. BENCH: The conditions in which it would be most helpful, may I say, would be in such a cycle in which the first three years were loss years and the fourth a profit year?

Mr. HANNAM: It would be more helpful.

Hon. Mr. BENCH: It would be most helpful.

Mr. HANNAM: Yes.

Hon. Mr. BENCH: I assume you are familiar with the provisions of Section 5, Subsection 1, paragraph (p) of the Income War Tax Act which provides that:

"Income" as hereinbefore defined shall for the purpose of this Act be subject to the following exemptions and deductions:—

Business losses including farm losses (p) amounts in respect to losses sustained in the three years immediately preceding and the year immediately following the taxation year.

The provision of course is subject to certain limitations.

I am wondering why that provision, which is really a provision to allow one to average out losses against profits over a period of five years, does not really meet the situation.

Mr. HANNAM: That is a measure of what we are asking, and we do appreciate that provision. As I mentioned before, the farmer is not allowed to charge any wages for his services. He and his family must have worked all year for nothing before he goes in the red.

Hon. Mr. BENCH: Frankly, I do not see how this has any bearing on this proposal at all. I would rather regard that as a suggestion that the Act should contain some provision that the farmer himself should be permitted an allowance for his own wages, which amount would be deductible from the taxable income, or from his income.

Mr. HANNAM: If that were done, this proposal of carrying forward the losses would be much more beneficial to the farmer.

Hon. Mr. BENCH: In other words, if the Act contained a provision that the farmer be allowed a salary, according to his standards, he should be permitted to deduct that from his farm income for the purposes of determining what in his taxable income. The existing provisions of Section 5, subsection 1, paragraph (p) already meets the situation that you have in contemplation.

Hon. Mr. CAMPBELL: Then he turns around and adds the income to his farm income, and he is back in the same place.

Hon. Mr. HAIG: But he does not pay any taxes on that.

Hon. Mr. CAMPBELL: He has had his wages out of the same pocket.

Hon. Mr. BENCH: Will you please clear up this proposal for the averaging of income over a four year period, as opposed to the provision which is already contained in the Act.

Mr. HANNAM: Permit me to answer it in this way. Where the farmer has a severe loss in one year, or where he has two or three years of serious losses and is allowed to carry those forward into the good year; that provision is very very helpful to him. However, it does not get away from the fundamental contention that we made in this paragraph, and that is where the farmer has a variable income over a period of five years, equal to we will say \$10,000,