

Income Tax

Mr. Hawkes: Now, help me decide what cost is. I have somebody working for me. I pay them \$20 per hour. They do five hours' worth of work on a project for which I have not billed. When I bill, I will bill at the rate of \$40 per hour. Now, what is cost?

Mr. Fisher: As I understand it, this was the entire discussion we had with the Hon. Member with Mississauga South, so I thank the Hon. Member for Calgary West for his specific example. The fair market value is \$200. The cost of getting that fair market value is \$100. Therefore, the cost of the inventory is \$100.

• (1630)

I would like to follow through with specific references so that the Hon. Member may have them. I would refer him to Section 10(5)(a) which states that work in progress is inventory. That is what we are discussing now. Second, Section 10(1) states that we should take either the lesser of the cost or the fair market value, and the definition of the fair market value is provided in Section 10(4). Therefore, Section 10(4) tells us that the fair market value of the Hon. Member's example is \$200. Section 10(1) states that the lower of those two is the cost, at \$100. Therefore, according to Section 10(5)(a), work in progress is treated as \$100.

Mr. Hawkes: Thank you.

Mr. Fisher: You are welcome.

Mr. Hawkes: I would like to return to the subject of my retainer. Why can I not have the right of choice between fair market value and cost? I am a professional. I sign a retainer. This paragraph refers to fair market value, and another refers to cost. If I can take it into inventory, I should be able to take it into inventory as zero, because I did not pay the \$20 an hour. I did not pay anything.

Mr. Fisher: Mr. Chairman, that is a fascinating example and I congratulate the Hon. Member for it. However, he does not have any costs involved in the kind of hypothetical retainer which he has described. By the way, I would like to know, looking ahead to the days when I am retired, how I can receive \$90,000 for doing nothing over three years. I look forward to any suggestions that my colleagues can give to me.

Mr. Crouse: See the Minister of Finance.

Mr. Fisher: However, I can tell him that until he has incurred costs and he has write-offs and so on, he is not in the work in progress category. He has a retainer, which is a contract, and he earns it as income which comes under the existing law, not under work in progress.

Mr. Hawkes: Let me give the Parliamentary Secretary another example. Professionals are working on the Olympic Stadium in Calgary, a new arena which will host the 1988 Winter Olympics. It is probable that for their services, they will receive a bonus upon completion of their work, if they bring it in under cost or in a hurry. There are several ways in

which bonus contracts are written. However, let us assume there is a \$100,000 bonus for those people in 1987 if they have done a good job as architects. How will that work in progress be treated?

Mr. Fisher: Not as I understand it. I am learning a great deal about what goes on in Calgary. It sounds like the land of milk and honey to me that people are able to arrange these deals. I congratulate them for their comfortable arrangements.

As I understand it, such bonuses are contingent and they will not be taken into account until they are earned, because it is quite possible that they would not be earned and that such individuals would not make their bonuses, for whatever reason, whether their contracts were filled or not filled, or whether it was not possible to pay the bonuses which were promised. Therefore, it is contingent. One waits until the payment is made and then one deals with it accordingly.

Mr. Hawkes: Now we are getting to the nub of the objection. Professionals generally do not get paid until the task is completed. If they fail to complete, they receive nothing.

Mr. Fisher: They get write-offs, though.

Mr. Hawkes: Why is there a tax Bill which treats them as though they have earned income when they have not earned any income? How does a contingency contract differ from a normal contract concerning professional people who do not get paid until they have done the job?

Mr. Fisher: Mr. Chairman, the Hon. Member is quite right, but professionals have costs. While they have the potential of earning such income, they also incur costs, and that is part of what we are discussing here. If people are to have write-offs, then they must be treated in the appropriate fashion. For instance, it is not always possible, in my business, to make a sale which we anticipated. The only difference is that we are dealing with physical property, in my case, which might end up as being unsaleable, or professional services. In someone else's case, this might also be true, with their services or goods being unsaleable. However, each case is treated in the same manner.

Mr. Hawkes: Let us examine that logic. I have a small business and incur costs involved in purchasing gasoline to run a car, costs of buying my coffee, and other costs. After I sell my coffee, I must pay bills. I can see all kinds of legitimate costs. A professional person incurs direct costs, perhaps such as advertising, or time costs involved in travelling to different places.

I invest my time in the development of my business, and also dollars. In the coffee business, those are legitimate costs. Concerning a professional, are those legitimate costs, or are those legitimate investments in inventory? I suggest that the Government is attempting to make them investments in inventory.

Mr. Fisher: As I understand it, Mr. Chairman, direct costs are the factors that we are considering here, not the