

*Income Tax Act*

Clause 13(3) is simply a consequential technical amendment to amend section 53(e) in line with the amendment to section 66(15)(b) of 18(5) as (v) in clause 18.

Clause agreed to.

On clause 14—“*Principal residence*”.

**Mr. Turner (Ottawa-Carleton):** Clause 14 refers to the definition of “principal residence.” This is a relieving amendment whereby the definition of “principal residence” would bring it within the exclusion of capital gains treatment, and is expanded to include the lease on interest in the housing unit. Disposition of these interests will henceforth be exempt from capital gains tax in the same manner as the principal that is owned by taxpayers. This amendment is in response to inquiries from the Ontario Housing Corporation which administers the HOME plan, and will also cover other situations such as government parks where homes must be or are leased.

**Mr. Hargrave:** Mr. Chairman, I would like to comment on this “principal residence” clause. I commented this afternoon on this matter, but this is the section of the act where I am sure my comments more properly apply. My remarks deal with what I prefer to call the family farm corporation. There are many of these now. This is a development that has been necessary to maintain the family farm.

At present, the principal residence of the family or corporate farm are not exempt. I suggest that the principal residence clause should apply to the family farm corporation set-up. The way this provision is being interpreted, where the family farm corporation cannot apply, simply means that the residents are the only class of citizens in Canada denied the right of the principal residence exemption, if in fact the minister suggests that a corporation does not require a residence. I suggest that a family farm corporation does indeed require a residence.

The key, of course, is to accept the terminology of family farm corporations. This is the traditional family farm, in the way it is used today, and it should be treated for tax purposes as an individual family farm, not as a large, conglomerate business corporation which is the interpretation given to it in the present act.

• (2110)

**Mr. Lambert (Edmonton West):** Mr. Chairman, I would like to join with my colleague from Medicine Hat on this matter in that in the consideration of capital gains and principal residence, and the fact that the House some 18 months ago refused to exempt farmlands from capital gains, the residence of the farmer, which is included in the farm, and the value thereof in this particular case, are caught by a capital gains tax. In other words, the farmer who uses his farm home and buildings as his principal residence, under the act is denied the same consideration as any other taxpayer with regard to that person’s principal residence. It seems to me that there is a very definite discrimination against the farmer in this regard.

In addition to that, there has been total lack of recognition of what exists in all provinces of Canada to a varying degree—I would suggest to a very surprising degree out in the Prairies and, I am told in parts of Ontario; and cer-

[Mr. Turner (Ottawa-Carleton).]

tainly I know it exists in parts of the province of Quebec—where the farm has been incorporated either by the farmer and his son, or by the farmer and his wife. Anyway, they have a family corporation, not in the terms that we know the family corporation but at least they have a private company running the farm. The company is the registered owner and the farmer, his wife, and possibly his children, own the shares. But, lo and behold, under this act, if then they sell their principal residence they are caught by the total provision of capital gains on farmlands.

This is what my hon. friend from Medicine Hat is suggesting, that right here at this point in section 54(g) of the act, in determining the principal residence, if we are prepared to say it means a housing unit, or a share of the capital stock of a co-operative housing corporation owned in the year by the taxpayer, if the housing unit or if the share was acquired for the sole purpose of inhabiting the housing unit, and furthermore provide that it is ordinarily inhabited by the taxpayer the year round, and so on, why would it not be possible—if we now make this amendment—where they are going into a very desirable or innovative type of housing, a leasehold interest of a public nature, also to introduce provision covering the shares in the family corporation owning the farm to include the principal residence in the exemption to capital gains? Certainly a strong case can be made for that.

**Mr. Blenkarn:** Mr. Chairman, the problem in connection with family farms also applies to businesses that are incorporated, where the living accommodation for the private owner is located on the business premises. There seems no reason why the concept of a leasehold interest could not be broadened by changes in this section to allow the leasehold value or the personal residence value not to attract capital gain.

The use of a corporation for estate planning or for moving property from father to son in a corporation is a common method that has been encouraged by ministers of finance and ministers of agriculture in the past. It strikes me it is imperative at this point that the private business with personal residence on it, and that of course would include the family farm—here I would ask the minister to talk on a broader base than just the family farm—should be included by a redrafting of this clause so that the personal residence, or principal residence of a taxpayer, if it is within a privately controlled corporation should still have the advantage of a tax-free capital gain.

**Mr. Turner (Ottawa-Carleton):** Mr. Chairman, through you I want to say first of all to the hon. member for Medicine Hat that there is no discrimination here against the farmer. The same problem involves every taxpayer who has a personal corporation in which he has put his principal residence. So the same rules apply to a corporation whether the corporation has as a principal shareholder a farmer and his own residence is within the assets of that corporation, or whether anybody in a city or in business has his residence in a corporation. To begin with, there is no discrimination between the farmer, the small businessman or anybody else.

Therefore, the question is really this: Should treatment of the disposition of a personal residence be extended not only to where the taxpayer personally owns the house or