to put into an RRSP. Even though there may have been accumulative capital gain of $240,000 since 1972 that really is non-taxable under the new provisions, surely we must remember that there must have been a value there before V-day in 1972. As these farmers are retiring and selling their operations, they will have such funding and, if necessary, be able to take back a mortgage. There are other ways of taking advantage of RRSPs that will benefit any farmer who has had his investment tied up in his operation over the years and who wants to retire with the dignity and respect which he worked so hard to achieve.

I am very pleased to be associated with the Minister of Finance. I look forward to working closely with him in the months ahead. I respect him for the many bold initiatives he has taken in this recent Budget in consultation with Canadians across this country. I was amazed to see the number of national organizations that he consulted so that Canadians from one coast to the other can point out from prior Budget consultations what the effect will be of various changes that are required as we attempt to ensure that the recovery is maintained.

I want to dwell for a few moments on the commitment of this Government to the family farm operation. I am a farmer professionally. Well over half my riding is rural. I want to underline the provisions which will have a direct and extremely beneficial impact all across Canada. We worked hard on these special measures over the last many months to ensure that retirement funds in the farm sector are not subjected to attacks from inflation. I remind Hon. Members that the capital gains tax was originally brought in in the early 1970s to replace the estate tax, which created such a burden over the years. Little did those who advocated the capital gains tax system, even farm organizations, realize the inflationary spiral we would have during the seventies. That inflationary spiral was checked only when this Government brought in the six and five program that has been so effective in protecting retirement earnings in all sectors of our economy.

The Minister of Finance has taken pains to make the Government's intention clear with Section 31 of the Income Tax Act. As well, he emphasized that farm losses are not in any way restricted only to those farmers whose principal occupation is farming. I would like to examine some of these provisions in these areas in detail, the areas of capital gains, second several technical amendments providing for the transfer of family farms and, third, Section 31 of the Income Tax Act.

The tax-free rollover of capital gains for farmers building pensions demonstrates how well this Government understands the special position of farmers. Often a farmer does not have cash to put into an RRSP. The income which the farmer makes is usually put right back into the farm in the form of buildings, equipment and the acquisition of more land as he builds up his base to form an economic unit. This continual upgrading and expansion is the secret to his success as a farmer. Indeed, it is the key to this country's success as a leading and progressive agricultural nation.

The productivity of Canadian farmers is higher than that of any other nation on a one-to-one basis. This capital investment that is built up over the years has to be looked upon by the individual as a retirement pension when the proceeds of a sale of property are used to finance his retirement. However, it has meant that the farmers' retirement savings were vulnerable because of these large capital gains that have resulted from an inflationary spiral. The Budget proposal makes changes so that the farmers would be better able to provide for their retirement.

• (1720)

To qualify for the maximum benefit, the farmer must have owned the property as of December 31, 1983, dating back to 1972. It covers farm land, buildings and equipment used by the taxpayer, spouse or children, and includes shares in family farm corporations or in a family partnership.

We all realize that only one-half of any capital gain is taxable. We can look at how we would calculate the amount of the capital gains that qualify for special deduction. The taxpayer simply multiplies by $10,000 the number of years between 1972 and 1983 inclusive that he or she has been a full-time farmer. Let us say that an individual started up an active operation in 1976 and sold the land in 1985. This would mean that the individual was a full-time farmer for eight years during the 1972 to 1983 period. Given a deduction of $10,000 for each of these eight years, he could contribute a maximum of $80,000 of taxable capital gains to an RRSP. This would be $80,000 less any other contributions made to an RRSP or registered pension plan for 1984-85 in this example. Thus, he would be able to reap a tax-free capital gain of $240,000 from sale of the farm. This new measure permits savings of federal income tax of an estimated $70 million in a full year with savings on provincial income tax of about half that amount.

We note as well that a special provision will extend the benefit to those who would otherwise qualify but have passed the 71-year age limit for contributions to an RRSP. When the broad pension reform measures set out in the Budget paper, Building Better Pensions for Canadians: "Improved Tax Assistance for Retirement Savings", are fully implemented, and stage two which is planned for January of 1988 is in place, farmers and small business owners will be able to carry forward their unused RRSP deduction entitlements from one year to the next. This will enable them to transfer funds from the sale of a farm business into retirement savings plans when they retire, using tax deduction entitlements built up during their working years. This special tax-free rollover measure for capital gains built pensions that I have described will provide significant relief in the period prior to the full implementation of the broad pension reform measures contained in stage two which I have just mentioned.

As you can see, Mr. Speaker, this Budget proposal is made in recognition of the unusually large proportion of lifetime farm income that is accrued in the form of capital gains rather than annual income. This proposal will therefore allow farmers in particular more flexibility in planning their retirement