

Income Tax Act

help of professional advisers. If ordinary people need the help of professional advisers to comply with the terms of this bill, the result will be that only the more affluent will be able to take advantage of some of its beneficial provisions.

• (3:00 p.m.)

The cost of compliance will be an increased cost to the economy. It will be incorporated as another business cost, to be reflected in increased prices of goods and services. Many judgments will be subject to error and ambiguity. Much damage will be done, not only to individuals but to the attitude people generally have toward the country's final authority.

Has there been sufficient consultation with the provinces and municipalities on this tax legislation? It is all right to come out with federal tax legislation specifying the exemptions, but if there has not been sufficient consultation with the provinces and municipalities to discover what their future tax needs will be, the end result may be totally unrealistic. It has been projected that costs at the municipal and provincial levels will rise at a rate many times that projected for increased taxation at the federal level. This problem is not considered at all in the legislation.

In this regard I would like to quote from the *Globe and Mail* of July 8 last, which reads:

One item among finance minister Edgar Benson's tax reform proposals has been largely overlooked. Since it will dip into the pockets of Ontario people for more than \$58 million of federal tax money annually (and into the pockets of British Columbia and Alberta people for lesser amounts), the oversight has been rather monumental.

The proposal is that which will require employees to add to their taxable income any part of their medicare premiums which is paid by their employers. In most cases—and that is a lot of cases in Ontario—the employer pays 50 per cent of the premium.

The proposal is about as brazenly discriminatory as could be imagined. It will discriminate in the favour of people who live in provinces that pay medical insurance costs out of general revenue instead of extracting them by way of premiums, and against people who live in provinces that levy premiums. It will discriminate in favour of people who live in provinces that are not highly unionized, and against people who live in provinces that are highly unionized.

The net result—as anybody who understands Ottawa's prejudices will instantly recognize—will be to discriminate against the people of Ontario, Alberta, and British Columbia—what Ottawa considers the have-provinces. The measure, however, will not hit Ontario, Alberta and British Columbia, it will hit their people, in a heavy and unequal fashion in which it will not hit the people elsewhere in Canada.

As between taxpayer and taxpayer it is inequitable—and, it must be feared, designed to be inequitable—and that cannot be defended. It is also an invasion of provincial rights. Ottawa invaded the provincial jurisdiction in the first place when it used its taxing powers to force universal medicare on the provinces—health care being constitutionally a provincial jurisdiction. The new measure will further compel provinces to adopt a certain kind of medicare—the kind that is paid for out of general revenue. This will infuriate provinces that have instituted premiums for the philosophically defensible reason that they believe it is healthier for citizens to recognize, by paying premiums, that medical services do not come free but represent a heavy cost paid by the taxpayer.

I think it is important for us to realize that many of these services just do not fall out of heaven; they all must be paid for by someone, somewhere. This legislation has

[Mr. Downey.]

far reaching implications for the agricultural industry. We have the matter of recapture depreciation being brought into income. In other words, where farmers used to calculate their capital cost allowances on the straight line method, this will be done away with on inception of the new act. In many instances, when farmers or ranchers take good care of costly agricultural machinery and that machinery has been fully depreciated, it still has a great deal of value. I think it is only a matter of seven years until a tractor is fully depreciated. A new tractor may cost up to \$20,000, so a farmer with a well-cared for, older tractor may get a trade-in allowance of \$6,000 or \$7,000. Under this legislation the money he receives as trade-in will be brought into his income for tax purposes.

This is particularly unfortunate at a time when farmers are in a continuous cost-price squeeze. In many cases they receive no more for their products than they did 20 years ago. In order to keep pace they have to expand their operations and keep in touch with technological advances. As a result, they are in a very unfortunate position when faced with recapture depreciation being brought into income.

One of the other matters that I think should be reconsidered is the elimination of the basic herd. The basic herd supposedly is to be terminated by the end of this year. I feel strongly that this is an error in policy. There is real need for a system whereby the farmer can treat his investment in livestock as a capital investment. Consider for example, the problem of the farmer who wishes to take money out of capital in order to add to an existing herd. From his standpoint he has a capital asset which cannot be depreciated. The acquisition of cattle is an expense if he is on a cash basis of accounting, giving him a number of years of severe losses—which is not uncommon in the ranching areas of the foothills—which would not be corrected by the averaging system. To operate on an accrual basis with annual evaluation of the herd is totally impractical if only because the cattle market fluctuates with the availability of feed.

• (3:10 p.m.)

I suggest that we should consider a continuation of the basic herd provision in the proposed act, because farming requires more capital than ever before. Governments have been encouraging farmers to consolidate smaller units, to take advantage of technology and of every innovation. But this would put another severe strain on capital. One of the effects of the basic herd provision has been to create herds without the investment of money from outside. We need a provision that will allow livestock to be shown as a capital asset.

There is one special point which should be dealt with in respect of the valuation of the basic herd on valuation day—that of valuable breeding stock. This has become important in recent years because of the importation of many exotic breeds of cattle. Unless provision is made for deviation in respect of the valuation day concept, we shall run into difficulties. In the case of animals put into insemination centres, or imported animals requiring tests, the results of such tests alone will prove the value of the animal; therefore, there should be a provision for later determination of valuation day value on that basis.