

Income Tax Act

houses do not throw stones. He talks about research. I want to refer him to the research the Department of Finance did when the minister was out a half billion dollars on a couple of occasions. He should not bring up the matter of research now. He should be ashamed to do it, sitting alongside the Finance Minister. I would like to ask whether it was the intention of the government to say to the people of this country and to members of this House that they were abolishing estate taxes and were replacing them with a capital gains tax. This was my understanding of it. Now, they come along and say, "if you boys want more estate taxes, we will collect them for you". I leave it to the judgment and to the wisdom of hon. members here to decide if that is not coaxing them into collecting more taxes. They misled the public.

• (3:40 p.m.)

Some hon. Members: Hear, hear!

Mr. Gleave: I have a few remarks to make regarding what the parliamentary secretary pointed out, namely, that there is nothing in the bill that would force a farmer to operate on the accrual system. This reminds me of the old army gag which was, "we cannot make you do it, but we can surely make you wish you had". That is about the size of it, because if no change is made in the section which was set aside for the time being, then many farmers who have a combined livestock and grain production would probably find some problem in using the accrual system for livestock, for beef and dairy herds, for swine, sheep and so on. If they did that, it would compel them to do the same for the grain part of their operation. The difficulty with the accrual system arises in the west particularly in connection with the grain or cash crop, because farmers might be in the position of having to put a value on the inventory and pay taxes on the sale. They may have to borrow money to pay the tax on a yearly basis. I want to make this point again, since it seems to have been overlooked.

In considering these sections, one sees that there are some other factors which should be taken into account. Another matter is the capital gains tax. In the first section with which we are dealing, we find that a fairly simple method of declaring income is to use straight-line depreciation, and the standard practice on most farms is to use the straight-line method in setting up depreciation, sometimes an old machine is traded in for a new machine, and the new machine is paid for. In this type of transaction, the capital recovery method will be used, that is capital gains, and under this method, when the deal is made any difference between depreciated value and trade in value of the used machine is deemed to be an actual income, half of which will be taxable. Those who favour the capital gains tax will ask "why not, since the individual made a capital gain?"

However, I would like to call to the attention of those responsible for drafting these provisions to the fact that these sections will have the effect of changing to a considerable degree the method of buying and selling machinery in western Canada. I suppose that this would also apply to eastern Canada and to other parts of the country. There is no actual cash gain in this transaction. Generally, the farmer will be forced into a position where, instead of following the general practice of trading in old machin-

ery, which gave him the advantage of setting it off for depreciation, he will be purchasing new machinery at the best discount price that is offered. He will not be trading in the old machine but will rather auction it off and half of whatever money he makes on it will be subject to tax, or else he will leave the machine on the farm and not bother with it. This provision will drive down the market value of machinery. I certainly expect this to happen if no provision is included allowing farmers to operate as they have been doing in the past.

It may be the considered opinion of those responsible for drafting the bill that a change should be made. If that is their opinion, then perhaps they may be willing to say so, but I wonder whether the full effect of the proposals have been thought through and considered by those who are making changes in this act. I may say, for the information of those responsible, that a major dealer in western Canada has suggested to farmers that if they want to purchase a machine for cash he will give them a handsome discount and if they want to bring in their old machine he will call an auction sale and sell it for them. This is one way of doing business, although it is not the general practice. It results in some inconveniences and in some serious adjustments in the methods of farmers purchasing machinery and of dealers selling machines to farmers.

So I bring this to the attention of those responsible. I do not know whether or not they wish to consider it. Perhaps they do not give a damn. If that is so, then let us forget about it, but the farmer will care what this does to him because I know very well that farmers trade in their machines and thus recover in book value some amount on the old machine on which they will have to pay tax. But they will not have any cash money with which to pay it. Actually, no money comes into his pocket as a result of the deal, and so he will not be very happy. It is an added cost to his operation. There is actually no real profit.

• (3:50 p.m.)

You get back to the same thing as you do with grain on the accrual system. If you make money, you can pay some tax on it, but if you do not make money, and a profit is merely imputed to you and you have to pay tax on that because of some bookkeeping procedure; it is pretty rough on you. As I say, I do not really know whether those responsible have considered this, whether they have bothered to go to machinery dealers and farm organizations, and listen to how these deals are made.

I know that the farm organizations have made representations to the minister. At least I have a letter saying that they made representations to him, and they have complained bitterly that he, and the others responsible, ignored their submissions. Whether this particular matter was discussed and the people concerned did not understand it, or chose to ignore it, is something I do not know.

If this section is allowed to stand today, I hope that those responsible will use part of the weekend to talk to some of the dealers and farmers, and as a result become better prepared to deal with the section and make some adjustments to it. I really cannot see how a capital gains tax could apply to those kinds of operations. Essentially, in those cases it is not really a capital gain in the same way as a capital gain is realized when one purchases a