

Income Tax

Mr. Fisher: Mr. Chairman, on a technical basis I know what the Hon. Member is talking about because I have worked under these kinds of contracts. I am sure he would agree that in his experience there is usually a minimum number of days committed per annum. Is he talking about that kind of situation? What are we talking about? Is it a three-year contract which has an ultimate \$90,000 value that he collects at the end of three years, whether or not he puts in any time? Is he talking about a minimum number of days per annum, or does he have some more open-ended idea in mind? I am just curious. I would like to know his view on this.

Mr. Hawkes: I would like to keep it clear. I get \$90,000 at the end of the three years because you have had first call on my services. For every day that I work I get a per diem fee, let us say \$600 per day. Even if I do not work a day for you, I still get the \$90,000 at the end of three years. How do I treat that situation for tax purposes over that three-year period?

Mr. Fisher: Again, Mr. Chairman, just as a matter of clarification, is the Hon. Member dividing his contract into three one-year periods, for example, where he bills \$30,000 every year, or does he simply hope that he does not put in a single day and at the end of the three years he collects \$90,000?

Mr. Hawkes: I thought I was clear. I get \$90,000 at the end of the three years because I have performed and given you first call on my services. That is the work I did.

Mr. Fisher: As I understand it, he would be considered to have \$30,000 per annum income, so he would be including \$30,000 worth of work in progress every year. I am sorry, just a moment. He would be deemed to have received \$30,000 income per year for three years, not work in progress. It is not work in progress; it is income.

Mr. Hawkes: It is not work in progress; it is income. I did not get any money.

Mr. Darling: You did not do anything.

Mr. Hawkes: I did not do anything, and I have \$30,000 worth of income on which I have to pay taxes.

Mr. Fisher: I can answer this for you if you will just hang on for a second.

Mr. Hawkes: I want some of these answers before we finish with this Clause. Why is that not inventory or work in progress? Why is that deemed to be income all of a sudden when I did not receive a penny?

Mr. Fisher: As I understand it, although I would have a question for our officials which I would like to explore further, they indicate to me that at the end of the year each year the time is deemed to have passed and the Hon. Member has collected his income of \$30,000. I would wonder what would happen if he did \$90,000 worth of work in the last two years in terms of time and therefore has \$90,000 worth of billable time

in the last two years. I wonder how that would affect his tax position.

The Hon. Member has asked a very complicated specific question which reflects not on work in progress but on the current legislation. This is why we are having some difficulty. He has asked a very complicated specific question, and we want to give him an accurate example because we know that millions of people are hanging on this answer. At the same time we would like to point out to him that we view this not as work in progress but as income, and therefore something which would probably fall under existing provisions of the law.

Mr. Hawkes: Let me give the Parliamentary Secretary another example. You have a small business and you contract with me to do some work on your behalf over a three-year period of time, and there is no guaranteed amount involved. I do five hours' worth of business for you this year as part of something which will take me ten hours, but I do not do the other five hours until two years down the road and I cannot bill you until the job is done. In that circumstance, the work in progress provision says that I have to take in the inventory the first five hours. I keep it in inventory and pay tax on it until I do the last five hours two years down the road. How can you do that to me and treat the guy with the retainer contract as having received income?

Mr. Fisher: If the Hon. Member recollects some of the discussions that we had earlier with the Hon. Member for Mississauga South, a good deal of the difficulties surrounding the question of work in progress is not around liability of income but around writing off costs. The individual the Hon. Member has cited does not have costs which are being written off; he has straightforward income. Then, on the five-hour example which he just cited, I understand that he can just save that up until the end, the costs of it, and apply the whole thing at the end.

Mr. Hawkes: Let us be even more specific about work in progress. Somebody works for me and I bill their services out at \$40 per hour, but I only pay them \$20. They do the work this year but I have not billed anybody for it because it is part of a larger project. What is this whole thing about, if I do not have to put something into inventory? What am I putting into inventory? Is it those five hours at \$20 or those 5 hours at \$40, which is the amount I will eventually bill? What goes into inventory?

Mr. Fisher: As I understand the example I have just been given it is \$20 per hour that you are paying out, times five hours, which is \$100. You would not write that off as costs until you had income. It is just the same as the example with physical inventory.

Mr. Hawkes: You have quoted those three paragraphs and you have told me that I have a choice of fair market value or cost, whichever is lower.

Mr. Fisher: All right.