

Income Tax Act

farms. I am not talking about large corporations. This is also a concern to many small businessmen in the farming sector.

● (2020)

What concerns many farmers in this country—and I represent a farming area—is that when the tax department proceeds with changes, it should do so on a basis that does not create havoc in the system.

I know of a case in which a reassessment was to cover a period of four years. If that had been proceeded with, it could have caused very severe hardship for the individual involved, his family corporation and the family members who are part of it. The financial hardship could have driven the family out of business.

What I found particularly disturbing about this case was that the tax department proceeded with it as a test case. That meant that the individual concerned would bear the full cost of testing the case in court and that the tax department could then use it as a precedent for other cases on the prairies because it originated in the Winnipeg office.

It disturbed me that the individual involved could be put to considerable expense to defend himself, yet he was really acting on behalf of a group of people who had incorporated under the same guidelines as he had. In that sense it was a test case, so the individual was not really being treated fairly. Fortunately, the tax department did not proceed. If the case had gone to court and he had won, however, his expenses could have amounted to as much as the tax it was proposed to levy in the first place.

I think it is unfortunate that the tax department has enough leeway to cause problems like this for the individual farmer. I urge the minister to ensure that if the department decides to proceed on this basis it makes sure that an individual does not put himself into financial jeopardy for what could be considered a class action or test case on behalf of other producers in western Canada. I should not take the narrow view and refer only to western Canada because it is my understanding that if there had been a test case and a ruling obtained, it would have applied across the country.

Many small farmers would be affected by such a decision. This involves not only a decision on whether rent is deemed to be an expense whether or not money changes hands, but the same principle also involves salaries. In the case of an individual who works for his family corporation—and this certainly falls within an arm's length transaction as the Income Tax Act defines it—whether there is money to pay him a salary or not in lean times, the tax department could assess and tax him as the individual owning the operation even though he had received income from his family corporation.

The situation I have outlined could cause the same kind of hardship as the deemed rent could have caused in the individual cases with which I am familiar.

We all know that many small business people incorporate and make shareholders' loans to their own corporations. In most cases the shareholders' loans are not interest-bearing. In

fact, many banks stipulate that a shareholders' loan cannot bear interest unless the bank the corporation deals with agrees that interest can be paid.

If the provision regarding deemed rent is upheld, it could also apply to a person lending money to his own company. He would have to show as income the deemed interest accruing to him from his own company. That is a matter of concern to me, Mr. Chairman.

If the tax department decides to proceed and a ruling is made that income is deemed whether it is realized or not, it could be applied to salaries, to interest on shareholders' loans, to rent on land and to other things that an individual could rent to his own small corporation.

When changes are made, it would be sensible for the tax department to proceed on the basis of allowing people six months or a year to adjust to them. They should not be made retroactively. People should have time to adjust to them and not be put to the expense of defending themselves in court.

This concludes my remarks, Mr. Chairman. I look forward to receiving a reply from the minister on this very important matter.

[Translation]

Mrs. Côté: Mr. Chairman, first I should like to congratulate the Minister of Finance for his budget and the bills which are being introduced to amend the Income Tax Act, and particularly for the investment tax credit offered to manufacturers and processors in areas where there are wide disparities.

When the federal budget was tabled on October 28 the rate of the tax credit available in areas characterized by acute disparities or difficult growth was raised from 20 to 50 per cent in the case of the businesses I have just mentioned. It is true to say that the government wanted to offer as much assistance as possible to promote commercial undertakings in underdeveloped regions and I do not think I am saying anything new to anyone, particularly to you, Mr. Chairman, when I depict the economic situation which prevails in the Rimouski-Témiscouata region.

We are part and parcel of a territory, the Lower St. Lawrence and Gaspé area, which is extremely underprivileged and which accounts for barely 4 per cent of the population of Quebec and slightly more than 1 per cent of Canada's total population. The riding of Rimouski-Témiscouata is home to nearly 75,000 people and we depend entirely on very small businesses, small and medium-size businesses, in fact—except for the city of Rimouski which has 30,000-odd residents and which is essentially a service community where municipal authorities are making superhuman efforts to spur industrial growth.

I must point out the problem I have with this investment tax credit. In a territory as wide as Rimouski-Témiscouata, I would say it stretches from Rivière-du-Loup to the Magdalen Islands and extends to both sides of the river, including part of