

Income Tax Act

My point is this: the inventory allowance is not large enough. When this section was put in place, we were talking of inflation in the range of 5, 6 or 7 per cent. We are now talking of inflation, authorized and promoted by this government, in the range of 12, 13 and possibly 14 per cent. So, that inventory allowance should be increased. I say this in terms of the problem with respect to inflation to which the parliamentary secretary referred in his long remarks—perhaps irrelevant to this bill.

What the parliamentary secretary should be doing is proposing amendments to the inventory allowance which would increase it to 5 or 6 per cent to allow business, particularly manufacturing business, to have a better break against their inventory problems, which are created by inflation. As prices go up, the cost of replacing inventory becomes greater. Therefore, a tax allowance on inventory appropriate to shelter the inventory costs to some extent should be established. That inventory allowance is much more valuable to corporations paying 40 to 50 per cent in taxes. It is not as valuable to small business which only pays 20 or 25 per cent in taxes, but it is valuable. The inventory allowance should be larger in order to compensate for the inflationary effects on inventory.

On page 33, the bill deals with the question of cash accounting. At the present time, the only people entitled to be on a cash basis in business are farmers. The bill includes fishermen, to enable them to be on a cash basis as well as farmers. I have no quarrel with that. What really bothers me is why this government, which professes to be so interested in the benefits to small business, should not include them on that basis as well.

One of the great problems a businessman faces is when he suddenly arrives at year-end after having just made a sale. He must pay tax on that sale although he has not yet been paid for it. So he has a receivable. Big deal! He has a bank overdraft too. Big deal! He has the tax man screaming at him for money. Now, why are we not decent to this small businessman? Why select farmers and fishermen and not look after small businessmen in the same way? Is it because the small business community does not have the clout the fishermen or the farmers have?

I suggest this government had better smarten up and look after the interests of small business people. They do have clout and they will exercise it, particularly when they look at this bill and the horrors of accounting they face with respect to the wads of incomprehensible matter contained in it. It is about time the government seriously considered allowing those people who make up the small unincorporated businesses, whether they be fishermen, farmers or storekeepers, to conduct their business on a cash basis and to pay tax on cash receipts. I submit the difference in income to the government would not be that great. The cost of accounting on an accrual basis is an enormous penalty and it discourages people from going into business. It discourages people on every front. It imposes on them an obligation to pay tax before they receive the money. The elementary justice in taxation is you should not be taxed until you receive the pay. Surely small business ought to be

treated as equitably as the act proposes to treat farmers and fishermen.

I refer now to page 40, which is an amendment to subsection 44 of the act. It deals with the question of replacement property. This section and other sections thereafter deal with the whole question of capital gains. I am sorry the President of the Treasury Board has left the chamber. He wrote a book called "Fiscalamity". Its subject matter was capital gains. In it he indicated how disastrous capital gains were to the economy of this country. It is clear in analysing this statute that the government has been weaving its way around the problem of capital gains. The truth of the matter is, despite the government's white paper cooked up by some person in the Department of Finance who does not know his up from his down, capital gains are a real problem. They are largely a problem because of the incidence of inflation. Most of the capital gains earned in this country today are not capital gains, they are inflationary gains.

At 10 per cent inflation, the value of your money is less than half in seven years and less than one eighth in 20 years. Most of the gains which are attacked under the capital gains provision of this income tax bill are really inflationary gains. People have not earned anything. In fact, they have more pieces of paper for what they put up. But they have not earned a thing, nor received a thing. These are inflationary gains. So, a number of these sections attempt to deal with these inflationary gains.

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These sections are gobbledygook. What we should have is an inquiry before the Standing Committee on Finance, Trade and Economic Affairs into the white paper concerning capital gains. The entire Income Tax Act with respect to capital gains ought to be rewritten. If there must be a capital gains tax at all, it must be indexed. I suggest that earning capital gains in Canada's economy with inflation is the same as the chance of winning a lottery. In other words, the chances of such gains are very small, and ultimately are not really capital gains.

If an organization is designed to make a capital gain, then surely that is income in the nature of trade. It is very unlikely in our society that one can make a real capital gain. The revenues which the government is presently collecting from capital gains tax, roughly \$1 billion a year, is really an inflation tax. It is an improper, expropriatory, unjust tax. The hon. member for Broadview-Greenwood (Mr. Rae), who spoke on Friday while I was not present in the House, mentioned that Canada did not properly collect death or inheritance taxes. He is right, but it is for the wrong reasons.

We do collect death and inheritance taxes when we have deemed realization on death. Unfortunately, we only collect it from some people. If one has a deemed realization on a huge gain on a single family home and occupies that house, then he pays no tax. But if one has money in a farm which was not passed on to an offspring, then God help him, and that phrase indicates the hopelessness of the situation. The farmer is destroyed because he is wiped out simply because such a sale