

Income Tax Act

The Liberal government began to impose qualifications, limitations and exclusions on Small Business Development Bonds. Small Business Development Bond loans then cannot be granted to unincorporated small businesses, including all sole proprietorships. They cannot be used to provide working capital, the most important capital requirements of almost all small businesses. They cannot be used for less than \$10,000 or for more than \$500,000. They cannot be used to acquire equipment or property for lease or rental to others. They cannot be used to buy second-hand capital equipment and machinery. It may result in stiff penalties at the end of the taxation year if a business holding a Small Business Development Bond ceases to be an eligible small business corporation because its lifetime cumulative earnings surpass \$700,000.

Remembering now that the purpose of this legislation was to provide interest rate relief to small business, the effect of the restrictions, excluding the great majority of Canadian small businesses from benefiting under this legislation, is absolutely staggering. We have heard speaker after speaker indicate that one of the highlights of this particular bill was the fact that it would provide interest relief to the small businessman, and indeed it does that.

An hon. Member: You are right.

Mr. Riis: However, of the approximately 930,000 small businesses across Canada, the first restriction excludes over 625,000 firms that are unincorporated small businesses from receiving interest rate relief under the Small Business Development Bond program. Small businesses in the wholesale, retail, construction and manufacturing sectors are required to carry and finance relatively large amounts of inventory in goods and process. Inflation and high interest rates raise dramatically the operating costs of these enterprises.

The great majority of these businesses will not benefit from the Small Business Development Bond legislation because of the second limitation mentioned, expressly restricting the use of Small Business Development Bond loans from providing working or operating capital, again one of the most crucial financial areas of the small entrepreneur.

Many small businesses are able to hold their start-up or expansion costs down by purchasing used equipment and used machinery. If this second-hand capital stock has been idle or underutilized, its purchase will have contributed to increased production and over-all capacity utilization in the Canadian economy. Under the proposed legislation, Small Business Development Bonds cannot be used to purchase used plant and equipment. This restriction will exclude many small businesses which simply cannot afford the high cost of new plant and new machinery.

Finally, the Small Business Development Bond program as now amended expires on March 31, 1981. The exceptionally short lead time, the failure of the finance department to effectively communicate the details of the program to the financial institutions and the virtually hopeless task of the head and regional offices of those financial institutions to communicate the details to their branches really dooms this

program to a large extent before it is even passed in this House.

Contrary to the comments made earlier by the hon. member for Lambton-Middlesex (Mr. Ferguson), saying that this program was available, of course, in the summer and autumn of 1980, which is true, by and large, if one is to look at the way the financial institutions were introducing it across the country, and I think one can realistically say it has been in effect in any real way only in the last number of weeks. In addition, I would agree with what he had to say, that it will really serve in a disproportionate way the large metropolitan centres of Canada rather than the more rural parts of Canada.

The objective of this legislation, that is the Small Business Development Bond, is to provide interest rate relief to Canadian small businesses. Our best and most optimistic estimates of the number of Canadian small businesses which will actually benefit from a Small Business Development Bond is approximately 40,000. This is slightly higher than the unofficial rough estimate of spokesmen for the Canadian Federation of Independent Business and the Canadian Organization of Small Business.

Under the Small Business Development Bond program, less than 5 per cent of small businesses across Canada will receive Small Business Development Bond loans at approximately half prime plus 2 per cent or 3 per cent.

An hon. Member: Only losing companies would want them anyway.

Mr. Riis: That is interesting.

An hon. Member: Only those which are not making a taxable profit.

Mr. Riis: The hon. member across the way indicates that only businesses that are losing would be interested in a Small Business Development Bond. That is an interesting observation coming from the Liberal benches.

The question one has to ask is, who benefits from the Small Business Development Bond? If the point I am making, that 40,000 businesses at best are able to benefit out of 930,000, is correct, who is it that benefits from the Small Business Development Bond program? I think that is a fair question to ask.

An hon. Member: The ones that are losing money.

Mr. Riis: Under the legislation, interest payments on a qualifying small business loan entered into after December 11, 1979, and before March 31, 1981, will be treated for tax purposes as dividends. As a result, the interest will not be taxable to the corporate lender, or deductible as a business expense by the small business borrower. Because the corporate lenders will incur no tax liability on the interest received, they will be able to reduce the rate of interest charged.

The legislation not only provides interest rate relief to qualifying small businesses, but also provides a tax shelter to corporate lenders, in particular the chartered banks of Canada.