

accruing to a business can no longer be treated on a cash basis, but must be treated on an accrual basis. Presumably there is some benefit to a revenue when it is treated on an accrual basis rather than a cash basis. But my friend, the parliamentary secretary, was talking about the advantages of business, helping business, and so on. I want to point out to him that what he is saying is that business must accrue interest and pay tax on interest, whether or not it is collected, instead of, as at present, using interest income of a business on the basis of a cash declaration. A great number of businesses wind up entering into financial transactions where the interest on the loan or on the advance or sale of equipment is not payable for two or sometimes three years from the time the original transaction took place. The effect of this clause is to make those businesses pay income tax in the current business year, even though there is no possibility of receipt of income on a cash basis during that year, the next year or even the year after that. The effect is to improve the flow of revenue to the government, but it seriously impairs the ability of a business to pay.

In effect, the receipt of income, or income that you have not received but you are due to receive, is subject to cash on an accrual basis. This is a change in the rules. This change in the rules is a serious problem for many businesses, and we will want to hear in the Committee of the Whole stage the extent to which this change is necessary because it will seriously harm a number of businesses, particularly businesses involving the sale of real estate.

On pages 17, 18 and 19 of the bill, there is a clause dealing with Small Business Development Bonds. Those are the clauses to which I referred earlier which enable a small business to treat its advances from a lending institution in a fashion which is very much like a term preferred or an income bond which was previously allowed. The effect is that the small business pays the interest from its tax paid surplus and the recipient of the interest receives the money in the form of a dividend.

Since the small business tax rate is approximately 20 per cent to 25 per cent, depending on whether the small business is a manufacturing business or a general small business in another field, it is paying a tax rate which is significantly less than normally paid by the lending institution. Consequently, the lending institution can reduce the rate of interest it charges on loans to the small business by approximately 25 per cent. In other words, sir, under the provision on Small Business Development Bonds, conceivably a small business could borrow on today's market for somewhere around 12 per cent or 12.5 per cent on a term loan, whereas it would probably have to pay 17 per cent to 19.5 per cent on a term loan on straight interest. The effect is that the small business has a break.

The problem is that this provision in the bill, under which nobody will lend until the act is passed, expires on April 1, 1981. So, in effect, this is a gift for nothing because it will expire almost by the time the act is passed. Therefore, small business will not have much advantage. Secondly, the terms of the Small Business Development Bond are far more restrictive than those that were contained in the budget of my colleague, the hon. member for St. John's West. The money raised on

this particular security must be raised to buy new productive equipment. Even the terms of the productive equipment are narrowed down.

As I mentioned earlier, you cannot include such things as automobiles or trucks. What you can invest money in is restricted. The problem with most small businesses is that they need money from banks and lenders to carry their inventory, their accounts receivable and their work in progress. But loans for that purpose are not allowed under a Small Business Development Bond. So, first, the act is narrow because it prevents the use of a Small Business Development Bond for normal commercial purposes, and secondly, the fool thing expires on April 1, 1981. Nobody has been able to borrow on it yet, and will not be able to until this act is passed, gone through the Senate and the rest of it. If he is lucky, a businessman may have two months to negotiate a deal. What foolishness!

● (2050)

Mr. Blais: It's retroactive.

Mr. Blenkarn: The minister says it is retroactive. Yes, sure it is retroactive, but nobody would lend on it, simply because they did not know the terms under which to make the loan. Does the minister know of anyone who has received one? He is the Minister of Supply and Services and is supposed to know these things. I do not know of anyone who has received one. I do not know of an institution which has made one yet.

Mr. Evans: Roynat.

Mr. Blenkarn: The parliamentary secretary says Roynat has made them—yes, option deals, not real deals.

Mr. Blais: Most of the banks have lent all their money under the program.

Mr. Blenkarn: Let us leave this question of the Small Business Development Bonds. There are a great many things in this statute which must be looked at very closely.

Mr. Blais: There are only two banks which have any money left.

Mr. Blenkarn: I do not know anyone who has made one and I suggest that the minister does not have any client or constituent who has made one. The minister believes his own press clippings—or his own press release, since he does not get any press clippings.

I would like to deal with a matter which appears on page 28 of the bill, the question of the 3 per cent inventory allowance allowed to companies in the business field. This inventory allowance was first invented as an allowance to help business fight the problem of inflation. It allows business to receive a tax credit or a tax allowance against their taxable income, a 3 per cent inventory allowance. In a sense, that looks after the problem of the inflationary effect of inventory re-evaluation. This particular section clears up some of the abuses with respect to the inventory allowance.