

Income Tax Act

Mr. Aiken: I wish to make one comment, Mr. Chairman. I intended to put a question to the hon. member who has just spoken. I have heard one or two members make the assertion which he has just made, namely, that taking professional people off a cash accounting basis and putting them on an accrual basis will do away with some of the monkey work which is going on.

For the life of me I cannot understand where that idea comes from. A cash receipt basis for a professional man or anybody else means that when he receives money he pays tax on it, and if he does not receive money he does not pay tax on it. The new method means that a businessman will estimate during the year what he might receive and then, at the end of the year, estimate what he might not receive. And between the two, somewhere or other, he guesses what his income amounts to. I cannot see how anybody could feel there is any improvement in the system by placing professional people on an accrual basis. To my mind the accrual basis is the one which is full of opportunities for finagling, double entries, write-offs of estimated losses and so on. The accrual basis opens the door wide for a businessman who can afford an accountant to take advantage of all the write-offs and concessions in such a way as to do the government in. On the other hand, the person who pays tax on money he receives is entering into a straightforward and honest arrangement.

• (12:40 p.m.)

I do not see this new system lasting forever. Farmers and others are entitled to retain the cash receipts system. I have yet to hear from the government why it is that it feels anybody will benefit from placing professionals on an accrual basis, which will leave the door open wide to what is an excellent opportunity to chisel the government through the manipulation of such tools as write-offs, estimates of revenue, delaying the submission of accounts and so on. To my mind, the situation would be nonsensical.

Mr. Ritchie: Mr. Chairman, I should first like to speak, as did the two previous members, about the lack of an option among taxpayers in the professions to choose to use either the cash or the accrual basis. I have had some personal experience of this, and I should like to detail it.

I think the figures given by the hon. member for Regina East must be wrong. When I first started my practice I was advised by my accountant to adopt the accrual basis. He told me it would be a little hard at first but in the long run I would be much better off. I could not agree more with the hon. member for Parry Sound-Muskoka who said that the accrual basis does offer the professional, particularly if he operates his own business, many ways to avoid paying tax in his later years when his earnings are higher. This can be done by not writing off his losses in the early years but writing off very large amounts, as he is able to do, in his later years.

In my profession at the moment this question of adopting either the accrual or cash basis is of no great significance. Under medical plans today payments are usually made within about two months, so it does not matter which system you choose. However, I went into a dentist's office the other day and saw a sign indicating that all work had now to be paid for in cash, that no one was to

[Mr. Burton.]

ask for any credit, and that patients were not to contemplate contracting for more dental work than they could afford to pay for within a week or so. This notice was given because of the new income tax regulations that were to come into force on January 1, under which the dentist would be prohibited from extending credit. The optimistic assumption, of course, was that the bill would be passed by that time.

The important consideration for a professional man, of course, is not how much work he has on his books but how much money he has in his pocket when his work is finished. I think the lack of an option in the change-over from a cash to an accrual basis is a serious mistake. I do not think any of the witnesses for the government who appeared before the committee when it discussed the white paper on taxation made any claim that tax revenue would be increased.

Let me read what the Canadian Dental Association had to say about the accrual in its brief to the finance committee when the white paper on taxation was being considered. As reported at page 43:129 of the committee report for May 14, 1970, they said:

In the White Paper the Government proposes that dentists be required to report their income on the accrual basis of accounting rather than the cash basis which is now permitted and that receivables and work in process at implementation date be brought into income in accordance with a specified formula. The government believes that the tax postponement permitted by (the cash basis of accounting) has given professionals an unwarranted advantage by comparison to the rest of Canadians.

I think the assumption of the government that the professionals had an unwarranted advantage may have caused them to over-react. I do not think that that is borne out. Certainly, as far as dentists are concerned, who are still largely paid out of the patient's own pocket, the accrual basis is detrimental.

The brief continues:

The dentist would be loath to provide services if he knew that the account would not be paid for some period of time. The view has been expressed by a number of dentists that if a dentist is required to pay tax on his accounts receivable, the natural tendency would be for him to reduce his accounts receivable to a minimum with the result that a dentist would carry on his practice on a cash basis. Any restriction of credit policy would deny dental services to persons until they had sufficient funds to pay for the services.

This does become a social problem. If the patient cannot pay, the dentist must decide whether he will make no charge for his services or put the amount in his books. Then, not only does he not receive payment, he will also have to pay a penalty to the government by way of income tax. As I say, it is too bad that the option is not extended in this new tax bill.

An accrual basis may be a more tidy way of doing things, but from the practical point of view it means a tightening up of accounts, and to some extent services will not be as good as they were previously. It may be a good thing for everyone concerned from a financial point of view, but as I say professional services will suffer to some extent.

I cannot see how the accrual system is going to bring in more money. Over the life span of a professional, less money will be paid into the federal government's coffers. If a professional has to pay a large amount of tax on