He said: Amendments are also required to subclauses 74(8), (10), (11) and (12) of this bill.

The amendments to subclauses (8) and (10) affect the date on which the new rules in section 148 take effect. The new rules for determining the adjusted cost basis of a life insurance policy are to be effective as of March 31, 1978, as proposed in budget resolution 71 rather than for the 1978 taxation year. Several technical anomalies would result if this change in the effective date were not made.

The changes affecting subclauses (11) and (12) and the reference to subclause (7) in subclause (10) are consequential upon deleting subsection 148(10) of the Income Tax Act.

Amendment (Mr. Chrétien) agreed to.

The Chairman: The last amendment to be put to the committee is on subclauses 74(10), (11) and (12).

Mr. Chrétien moved:

That subclauses 74(10, (11) and (12) of Bill C-11 be amended by striking out lines 1 to 9 on page 165 thereof and substituting the following:

"(10) Subsections (4), (5), (6) and (7) are applicable after March 31, 1978.

(11) With respect to the 1972 to 1977"

The Chairman: The explanation has been given by the minister. Unless the minister wants to add something, I will ask whether this amendment carries.

Some hon. Members: Agreed.

Amendment (Mr. Chrétien) agreed to.

The Chairman: Shall clause 74 stand and shall the committee revert to the consideration of clause 14?

Mr. Stevens: Mr. Chairman, I take it it is agreed that these amendments will appear in *Hansard* as if you had read them in full each time.

Mr. Chrétien: Agreed.

The Chairman: Definitely they will. Does the committee give consent to stand clause 74 and accept the fact that 52 has been stood, I do not know if I mentioned that at the time, and revert to the consideration of clause 14?

Some hon. Members: Agreed.

Clause 74 stood.

On clause 14.

Mr. Peters: Mr. Chairman, my advisers from the city of Toronto have an interest in this.

Mr. Stevens: Who is that who is advising?

Mr. Peters: Osgoode Hall.

Mr. Stevens: Who is the author?

Mr. Peters: How do I know? It is a whole class. They all took sections and forwarded it to me.

[Mr. Chrétien.]

Mr. Stevens: Who forwarded it to you?

Mr. Peters: The hon. member for Waterloo-Cambridge.

Mr. Stevens: Whom did he consult with?

Mr. Peters: You are too curious.

Mr. Chrétien: On a point of order, Mr. Chairman, it seems evident that every party on the other side has spies.

The Chairman: Order, please.

Mr. Peters: As for the political direction, I am not sure. For at least an hour and a half I have listened to a discussion on clause 14 with regard to the problems of insurance. I do not think anyone in his right mind could decide on the political stripe of the various participants in that discussion. Therefore I am not sure there is too much politics in this very large income tax bill.

I am referring to the problem in clause 14(1)(gg). At present, taxable business income includes holding gains in inventory which are merely a result of inflation. As the system is now, taxation is based on accounting measurements that largely ignore the effects of inflation and do not, for example, take into account the increased cost of replacing inventories in an inflationary period. Canadian tax laws require companies to calculate, using the FIFO—first in, first out—system of accounting, profits using costs of oldest, and during inflation, cheapest inventory. Increasing amounts of funds are required to maintain inventory levels, and although these funds are not available to business, they are being taxed as profits under FIFO.

The government expects this measure to provide a tax relief of $300 million a year and correspondingly increase the flow of internally generated funds available for business expansion. This goal is in response to the perceived need for liquidity relief and the problems of the high cost of financing the replacement of depreciable assets and inventories.

Specifically, this special inventory allowance is seen by the government as a simple and direct mechanism to provide business with relief from the taxation of illusory inventory profits arising from the impact of inflation on inventory values. This goes on to point out some of the effects that this will have.

● (1732)

I am curious from a personal point of view to know what has happened to this $300 million. Although this bill has not been passed, anything which goes into the budgetary hopper, so to speak, becomes law. I am curious to know how much this $300 million has been responsible for lay-offs at INCO and Falconbridge and may be responsible for the blowing up of power stations at INCO in the city of Sudbury.

This student points out that inventories may be purposefully inflated at year end in order to achieve excessive, unreprensentative deductions. It seems to me this may have been one of the reasons for so much overtime. Obviously there has been the