

Income Tax

those small-businessmen who applied for it because of financial difficulty. On the basis of that six-month experience, with the kind of information we have, we have not been able to determine whether it was the unincorporated entities which used the \$200 million of the corporations. But the \$200 million figure indicates the amount of take-downs under the combination of Clauses 8 and 9 since the amendment was flagged some six months ago.

Mr. Riis: Mr. Chairman, is the Minister saying that for all intents and purposes the Small Business Bond and the Small Business Development Bond in its revised form are essentially the same thing?

Mr. Cosgrove: Yes, Mr. Chairman, and available now to unincorporated small businesses as well as to incorporated small businesses.

Mr. Riis: Mr. Chairman, would the Minister agree that one of the problems facing the small business community today is the difficulty of building up equity in a small business? If that is a problem the Minister recognizes, would it be in the Government's interest to assist the small corporation in building equity?

Mr. Cosgrove: Mr. Chairman, one of the amendments with respect to that Section, in response to the difficulty identified by the Hon. Member, is to make the bond provisions available to small businesses but in greater scope, so that in effect the bond is available not only in the original amounts as set out in Clause 8 as introduced, but also permitting small businesses to take advantage of the small business rate and qualifying for a larger amount of business with a larger base.

Mr. Riis: Mr. Chairman, one of the ways the small business sector had of building equity was to use the taxable dividends to its shareholders as a way of putting off the time when accumulated earnings would be in excess of \$1 million under the new definition of small business. This then allowed the small business, if you like, to use the taxable dividends to reinvest in the company. In other words, to build equity and at the same time enable the small business to hold off the date of being classified as a large business, and therefore entering a higher tax bracket.

My question is really two-fold. What is it that is so magical when accumulated earnings one day reach \$1 million and the next day the tax rate essentially doubles for that small business? Could the Minister explain the logic behind that definition or it is totally arbitrary? Why has the Minister decided that he will not now allow the taxable dividends to be used as a reduction in the definition of a small business?

Mr. Cosgrove: Mr. Chairman, I would be happy to respond to the Hon. Member's question when the Clause pertinent to his question is before the Committee, which is Clause 86. It would be the intention of the Government to introduce some amendments to Clause 86 but we are not there yet. I do not think it would be proper for me to go into the item now unless

we have consent of all Members, and the Hon. Member for Mississauga South is indicating that he does not consent.

Mr. Riis: Mr. Chairman, could I ask the Minister to clarify whether he was referring me to Clause 86 regarding the definition of the taxable dividend that is being removed as an option for the small business?

Mr. Cosgrove: Mr. Chairman, I was referring to Clause 86 which deals with tax rates, and also Clause 109 which deals with dividends.

Mr. Riis: Mr. Chairman, I would ask the Minister a general question rather than refer specifically to the content of those two Clauses. We are talking about small business in Canada. We are talking about bonds and development bonds to assist that sector. That sector is defined in this particular Clause as a company that would end its definition of a small business after accumulated earnings had reached \$1 million. What is the rationale for that definition? What is it that changes in the small manufacturing shop or the small business the day after the accumulated earnings reach \$1 million?

Mr. Cosgrove: Mr. Chairman, that relates to two Clauses, one of which is Clause 109, the definition section. The Hon. Member poses the difficulty I have in trying to respond to a Clause which involves a combination of two, which is part of the difficulty in introducing material. If we only discuss them in chronological order, it prevents us from logically dealing with this issue.

• (1150)

I see that the Hon. Member for Mississauga South is chuckling as he recognizes that that is a difficulty.

Mr. Blenkarn: I rise on a point of order. The question is very relevant. This particular Clause deals, in fact, with the small business limit of \$75,000 and amends it to increase it to \$1 million. My friend the Hon. Member for Kamloops-Shuswap is absolutely right. To try to avoid answering the question on the basis that the Minister would like to play around with the Bill a bit is just wrong. The Minister is here to answer questions and that is a vital part of this Clause.

Mr. Riis: Mr. Chairman—

The Deputy Chairman: The time allotted to the Hon. Member for Kamloops-Shuswap has now expired. He will, of course, be able to speak after the intervention of another Hon. Member.

Mr. Schellenberger: Mr. Chairman, I want to follow along the lines of the questioning of the Hon. Member for Kamloops-Shuswap because, as a Member, I deal with issues in my constituency involving small businesses in financial trouble due to high interest rates. The Small Business Development Bond and then the Small Business Bond became very important to those people. They found that when their Member consulted with the Government as to what assistance was available to