

Income Tax

Canada rates. In any event, Mr. Chairman, I would not want to upset my friend from the New Democratic Party. I understand that he has been a participant in this debate and has himself used a lot of time, and I am sure he would not want to deny me, a humble backbencher on the Government side, a few minutes of redress to approach one of our Hon. Ministers. I thank the Hon. Member for not objecting even further after the Chair had supported me in my line of questioning. I have made my point and I welcome the Minister's answer.

Mr. Cosgrove: Perhaps, Mr. Chairman, I could respond by observing that the rate is not set. The rate is negotiated between the bank and the small businessman. It is really something which flows from the application by the small businessman to the bank. I am having difficulty, Mr. Chairman, concentrating on my recollection of the question before the Hon. Member was interrupted by the Hon. Member for Kamloops-Shuswap. But in so far as the setting of the general bank rate is concerned, Mr. Chairman, as you know, since January, 1982 this rate is revised quarterly and takes into account fluctuations in interest rates on the capital markets. The rate used for a given quarter is obtained by taking the arithmetic mean of the accepted weekly three-month Treasury bill tender rates for the first month of the preceding quarter. Consequently, for example, the prescribed rate of 16 per cent, which applied in October to December, 1982, was based on July, 1982, data.

I will conclude by saying, on the other hand, in the case of dropping interest rates, the prescribed rate is slightly higher than it should be. The opposite occurs when these rates go up. The recent drop in interest rates has lowered the prescribed interest rate, which is 12 per cent for the present quarter of 1983.

Mr. Collenette: Mr. Chairman, as you can see, the Hon. Member for Kamloops-Shuswap has come over to me for further clarification and we are discussing this matter. I am very glad that he now understands my position fully. I would like to ask the Minister in conclusion, given his answer, would the Government, in view of these fluctuations, help small businessmen and bank employees such as I have described by perhaps being a bit more flexible on the compilation of this rate? The argument that it takes three months to gear up computers and inform people in the field as to changes in the rate, is certainly a hard one to accept, given the great efficiency of Government organization in general, and especially of Revenue Canada.

Mr. Cosgrove: In conclusion, Mr. Chairman, the experience prior to the last six months was of interest rates climbing. I am advised by my officials that the quarterly averaging device has assisted small business and its customers in that situation. Now, since interest rates have been dropping—and of course they have gone down a lot faster than they went up—possibly the averaging may not have been quite so attractive. But it was a device which was of great help to people, such as in the small business sector, who were borrowing money during that period of time.

• (1610)

Mr. Rose: Mr. Chairman, I was very interested in what the Minister had to say about how the money from the Small Business Development Bond went directly to the banks rather than back to the Government, because that is a view I hold. If I have not paraphrased him properly, I apologize. But I think he did say, in response to the Hon. Member for Mississauga South, that it was not offsetting, not reciprocal, and the fact is that the effective interest rates were larger for small companies than they were for large companies. I think what we need to do is not to look at the tax rates themselves but rather at the real, effective interest rates.

Has the Minister any current figures on the effective interest rates as applied to different classifications of people? If you have an inflation rate of, say, 12 per cent and an interest rate somewhere in excess of 20 per cent—I know we are not there now, but I wonder if he has any up-to-date figures. The real after-tax interest rates discriminate against small companies, which the Government, through its Small Business Bond, is attempting to help. Consequently, the people who get the help, the stimulus, are not in fact the small businesses, or the Government in terms of revenue, but the people who are lending the money and charging the interest rates.

I will just give you the figures I have from about a year ago. The effective after-tax interest rates for homeowners is 9.5 per cent; for small manufacturers, 4.7 per cent; and for large manufacturers, 3 per cent. I would like to know from the Minister whether or not this has changed. We have found that in the personal income tax system we are really loading the system against the poor and low income groups. Is the same thing true where we are loading the corporate tax system against small-businessmen instead of the large retailer and manufacturer? Does he have any up-to-date figures on the real after-tax cost, because the tax rate is frequently meaningless?

Mr. Cosgrove: Mr. Chairman, the tax system generally in the corporate sector is the exact opposite of what the Hon. Member has just said to the House. For example, I think the small business manufacturer has a rate somewhere around 10 per cent as compared to the larger corporation which pays around 35 per cent, 36 per cent. So the Act is tilted or biased, as the Hon. Member says, in exactly the opposite way from what he has just indicated. Now, there may be some lending practices involving the rate that a bank charges different customers or different classifications in the business sector, but that has nothing to do with the Income Tax where we have biased our rates toward the small business sector. That has been traditional and I think well known. This section, I think, is just a further example of that. How can the Hon. Member say that we are not biased in favour of the small business person, incorporated or unincorporated, when the effective rate of a person taking advantage of this bond is half prime plus 2 per cent to 3 per cent? This is available to small business, not to the giant corporation.

Mr. Rose: Mr. Chairman, the point I was making is that while the tax system is biased in favour of the small-business-