

*Adjournment Debate*

The Minister of Finance (Mr. MacEachen) has indicated to the Senate finance committee that the revenue foregone would be held to \$15 million. The senator from the Miramichi in New Brunswick referred to this amount as "minuscule". This being the case, the need to focus on those areas most in need is all the more apparent.

**Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance):** Mr. Speaker, at the time of his April 21, 1980, statement, the minister indicated that he would be reviewing the need to provide further tax incentives of the type suggested in the December 11, 1979, budget for industries locating in the slower growth regions of Canada.

In the period between that time and the budget of October 28, this review did indeed take place within both the Department of Finance and the Department of Regional Economic Expansion. The result, as announced, has been the establishment of a new, very generous, investment tax credit designed to promote growth in those areas of Canada which are in greatest need of economic aid.

The new incentive provides a tax credit of 50 per cent of eligible expenditures. This credit may be deducted directly from the other federal taxes payable by the company making the investment. This level of credit compares to the current investment tax credits of 7, 10 or 20 per cent depending upon the region of Canada in which the investment is made. Expenditures which qualify will be for new plant and equipment in most manufacturing industries in those regions which represent the 5 per cent of the population with the lowest per capita income, and the highest rates of unemployment.

This is a very generous measure. It acts to reduce the cost of the capital equipment in a new installation to one-half of what would otherwise be the cost to the company.

As it is a deduction against other taxes payable, the credit will provide a substantial incentive for successful firms to expand their operations into regions of high unemployment and low incomes. Thus, the incentive will attract firms which will provide a stable employment base of long-term economic benefit to these regions. The measure is experimental in nature. It represents an additional weapon in DREE's arsenal of programs to address regional economic disparities.

With regard to the hon. member's second question concerning the timing of the legislation for the small business development bond, the detailed description of the measure is in the public domain, and will be tabled in Parliament shortly. In addition, in order to allow firms a greater opportunity to take advantage of the measure, the deadline for making such loans has been extended three months beyond the original expiry date until the end of the first quarter in 1981.

● (2210)

NATIONAL REVENUE—INCOME TAX DEDUCTIONS FROM WAGES OF SPOUSES IN UNINCORPORATED BUSINESSES

**Mr. Maurice Foster (Algoma):** Mr. Speaker, on December 1 I put a question to the Minister of National Revenue (Mr.

Rompkey) asking him if in fact the government was going to allow wages paid to a spouse working in an unincorporated business as a deduction for income tax purposes. The Minister of Finance (Mr. MacEachen) in his economic statement last April indicated this would be the case. Since then there has been some concern expressed by small businessmen, at least in my district, as to this deductibility.

Small business is a very important part of the Canadian economy. Some 95 per cent of Canadian firms can be considered small or medium-sized businesses in this country. They account for something like 24.5 per cent of the total sales in the country and represent about 42 per cent of employment in Canada. Also, they contribute around 30 per cent of the business gross national product of the country.

I am told that in 1980 there are some 600,000 unincorporated small businesses in Canada, many of them very small. However, many of these small businesses are proprietorships and are unincorporated for one reason or another. Often the spouse works in the small business as a partner or associate. Certainly this arrangement has made many small businesses successful working on this basis and has contributed in a mighty way to the strong position of these business enterprises.

Naturally, I was delighted when the Minister of Finance announced in his April statement that wages paid to spouses working in a small unincorporated business would be deductible for income tax purposes. Lo and behold, during the past few weeks I have had small businessmen coming to me indicating that the income tax department is refusing to accept the contributions deducted from the spouse for income tax purposes. When I put the question to the Minister of National Revenue he indicated that there were problems with the legislation because income tax amendments apparently have to be passed in the House before the bill becomes effective.

I should like to reiterate to the Minister of Finance and the Minister of National Revenue that I believe it is absolutely imperative that the government honour this commitment made in April by the Minister of Finance. Because of the importance of small business, whether it is a farm situation where the spouse works making the business a success, or whether it involves working professionals who are not incorporated and their spouses work along with them, perhaps not full-time but certainly part-time, those concerned are entitled to wages and are entitled to have those deductions for income tax purposes. I hope the Minister of Finance will be able to clarify this situation for the benefit of the 600,000 or so unincorporated small businesses across the country which are assuming the new tax provision will be implemented and will be in effect for the 1980 taxation year.

**Mr. John Evans (Parliamentary Secretary to Deputy Prime Minister and Minister of Finance):** As you know, Mr. Speaker, under the present income tax rules and as the hon. member has pointed out, a taxpayer who employs his spouse in his unincorporated business is not allowed to deduct as a business expense any remuneration paid to that spouse.