

Income Tax Act

they affect both individual and corporate taxpayers. But the major burden would appear to fall upon the corporation. The incentive proposals as contemplated will greatly add to the increase in paperwork. This is for corporations that will not have the back-up ability to easily take care of it. We all realize that it costs money to take care of the paperwork. I would respectfully suggest that the proposals should be carefully re-examined in order to attempt to reduce the bookkeeping.

• (8:40 p.m.)

Is the establishment of a total business limit really necessary, or could the simple business limit test work effectively in conjunction with adequate policing safeguards such as the active business test? In my view, these questions should be answered before the proposals are enacted into law.

Mr. Saltsman: Mr. Chairman, listening to the debate I hoped that I might hear something about how these business incentives relate to the well-being of our society, how they relate to the wage and salary earners of our society—but I have not heard much along that line. At the risk of being rude I raise this question: What happens to the majority of people in our society who are not eligible for these special grants?

It is my understanding that something under 100,000 people in Canada would be eligible for the special tax treatment outlined under the small business grants. What happens to the others? The simple fact is that the change the government has made from the original white paper to the present proposals means that \$315 million more every single year will be available as a result of the changes. In the original white paper proposals and on many other occasions the Minister of Finance stated that this particular change, the change away from the split rate on corporations, would raise government revenues by \$400 million a year. The projection is that if it is based on 1968 incomes the government would increase its revenue by \$75 million, and if it is based on 1972 incomes the revenue would be increased by \$85 million. Deduct that figure from the projected increase that they stated initially, of \$400 million and you get \$315 million.

All of us here are sympathetic to the problems of small business. Some of us have been in business and know that the small business needs assistance in getting off the ground. I have no reluctance in seeing such assistance provided. I am sure all hon. members would agree with that statement. But the real question that arises is, what we are suggesting is necessary for all small businesses, and is this the best way of proceeding with assistance?

It is the scatter-gun approach, still the old approach. The tax rate has been changed, allowable ceilings have been changed, but it is the old story—if you spread it around some of it is bound to do some good. If only a small amount of money was involved, perhaps there would be some kind of justification. But when you are asking the wage and salary earners of this country to pay something like \$400 million a year on the offchance that it will provide a positive stimulus to some business, I think a much better system is required.

The Carter commission suggested that the split rate on corporations, the differential between the two kinds of

corporations, be abolished and that instead a more positive way of assisting small business be sought. The Commons committee that examined the white paper proposals and the various other tax proposals which came before it had great difficulty trying to find an acceptable formula that would reduce the cost to the treasury, reduce the burden on the wage and salary earners and at the same time find an appropriate way of assisting small business. I am sorry that the committee and the government failed to find an answer and now have to return to the old system and the scatter-gun approach.

What is the difference? There are some differences between the present proposals and the old system. The chief difference is that the larger corporations, eligible for the preferred rate under the split rate, will not get it because if their profits exceed \$50,000 they are out of the picture. Previously, the legislation applied to the first \$35,000 profit of all corporations. That is an understandable and acceptable method. In my view there is still considerable evidence that most of the money that will be handed out in this way will not be used for expansion or increasing efficiency of business but will simply be a bonus to some of the self-employed in this country.

Mr. Chairman, I should like to paraphrase some of the submissions made to us in the maritime provinces during the hearings on the white paper on tax reform. If anybody wants a more definitive picture I will be glad to find the relevant portion in the committee minutes so that he can examine it himself. On one occasion a group of maritime businessmen appeared before the committee and argued very positively the need to maintain the system in its present form, saying there was an imperative need for small business to continue receiving the preferential tax treatment because, after all—and it is a very compelling argument for those of us from central Canada—they are very short of capital in the Maritimes and this is an extra reason why entrepreneurs there should be entitled to this kind of tax break.

Of course I am sympathetic, except that there are a number of flaws in that argument. One is that most of these people were investing their money outside the Maritimes and another is that most of their businesses had not expanded in years and the extra tax savings went for purposes other than business expansion. This does not apply just to the Maritimes, of course, Mr. Chairman; it applies all across the country except that it is a more poignant argument in that part of the country.

In fact, the savings have not been used to develop business as was intended. On the contrary, I think if we wanted to look at the argument very closely we could see that by providing these incentives to businesses that do not require them—I want to differentiate between businesses genuinely in need and deserving of the consideration of this House and the taxpayers of Canada—many businesses have not expanded and have no trouble getting the money they require for their operations, yet they are getting this tax benefit.

This leads to an accumulation of surplus and makes things difficult because they cannot get it out of the business. They have all kinds of profits accumulated and if they try to get it out it will be subject to marginal tax rates. Therefore, there are all sorts of shenanigans of income stripping, splitting up of companies and such tech-