

Taxation Reform

May I first discuss the matter of small businesses and how the white paper proposals will affect them. As I said, our small businessmen will be hardest hit of all if the white paper's proposals are implemented in their present form. I wish to deal with some of the ways these proposals will hurt small businessmen. First, small corporations will pay more taxes under the proposals, because of the proposed increase in corporation taxes and because of the capital gains tax small corporations may be required to pay. Second, since small corporations will no doubt have to pay more taxes, it will become more difficult and more expensive for them to expand.

Here I am thinking of a flourishing industry in Port Dover, a florist industry which contributes greatly not only to the economy of that town but the entire country because it does business far beyond the borders of our country. Not long ago I was discussing the white paper proposals with some officials of that company and they were appalled by them, saying that if they are implemented they will make a marked difference to the company's ability to expand. The company's ability to construct new greenhouses will be severely curtailed.

The third difficulty also involves finances. There will be pressure on corporations to pay out dividends, and that will make management of such corporations much more difficult. Such work may be beyond the scope of laymen and as a result more expert employees, accountants and other specialists will have to be employed by small corporations in order to look after certain financial aspects. Clearly, small business owners will find it increasingly difficult to retain control of their small businesses. Furthermore, in order for them to raise capital and pay taxes they will have to expand their businesses by selling shares and becoming publicly-owned companies. In so doing they will widen the basis of company ownership and will lose that personal control they have held until now.

I might say that most Canadian farms are incorporated and my comments about small businesses could be made equally about small farmers. I shall go into greater detail on the question of farmers in a minute or two. The *Toronto Telegram* of November 12 had this to say about the proposals, as they relate to the small businessman:

Already small businesses have a hard time competing with big businesses, the wiping out of a tax preference might end them.

[Mr. Knowles (Norfolk-Haldimand).]

The government ought to take these remarks into account. The *Ottawa Journal* of November 12 said as follows:

The proposal (respecting five year accruals) would force owners of many small companies that have gone public to sell control of their firm to pay taxes.

That underlines the point I stressed a minute ago. Let us examine, Mr. Speaker, more specifically how these proposals will affect the incorporated farm. Farms are incorporated for a number of reasons, the first being, I suppose, the hope that incorporation will place them in a more favourable tax position. That does not necessarily follow. This is a legitimate business practice, and there is nothing wrong with it. Farms are also incorporated in order to help owners plan their estate. It is much easier for a farmer to pass the control of his farm to those of the next generation if he can hand down to them shares in a limited company, the farm.

As I have said, the factors here affecting incorporated farms also apply to small businesses. But there are other reasons that lead farmers to incorporate, Mr. Speaker. The institution of a system of capital gains taxation has very widespread implications for farms large and small. The new proposals will affect what I term recapture of depreciation write-offs. For instance, a \$10,000 tractor which might have been written off, for taxation purposes, over a five-year period at a depreciation rate of 15 per cent is traded in, let us say, on a new tractor and brings an allowance of \$2,000. Under the new proposals the farmers will be liable for taxation on the written off tractor. This is a direct change from the present situation in which the farmer is specifically exempted from recapture of depreciation, that is, from taxation on the recaptured depreciation.

Most farmers have been operating on a straight line depreciation basis. Under the new system they will have to work under a diminishing balance system which will depend upon the category of the particular capital asset being considered. This will place farmers in a most unfair tax position. Farmers are also to be taxed on the gains made from the sale of livestock and equipment. If these proposals remove the present basic herd allowance as a non-deductible capital expenditure, I submit that the whole concept will disappear. As my colleague said a few moments ago, the work of the average farm owner who wants to keep a proper record of the value of his assets will be increased a hundredfold.