

Small Businesses Loans Act

We have just had forced upon us closure on Bill C-139 which may cause many difficulties. I will not speak again about the Small Businesses Development Bond because we went over that a number of times. If we look at interest deductibility, where interest on funds borrowed to acquire shares in taxable Canadian corporations is only deductible up to \$10,000, we see that ceiling restricts the Canadianization of companies which need investment capital in this country.

On capital cost allowance, the deduction for depreciation is limited to half the normal write-off in the year in which the asset is acquired. That causes difficulties. The original budget banned all reserves for payment of taxes on sale of property. Now we have three-year reserves allowed, but it still makes it difficult for business to make large capital purchases because payments cannot be spread beyond that three-year period.

With respect to annuities, these, of course, bring me close to my constituency because many farmers have used these annuities to assist them in paying the tax, which rips them off for their pension funds which they have worked so hard for all of their lives. Capital gains tax, in my opinion, should be abolished, but since it is there the farmers were able to use the annuities. We now have those funds diverted from the private sector where they have been invested and put into Government coffers where they are gobbled up, and who knows how they will be used to benefit those farmers and business people. And I could mention the 12.5 per cent dividend tax position.

There are many, many examples in the last number of budgets which have caused great difficulty for small businesses, especially in these hard economic times. What my colleagues and I are saying here is that we approve of this Bill. We hope that it could be expanded, but we also want to impress upon the Government the things which should be done to assist small business, the capacity of small business to create jobs, and the ability of small business to get this country going again in the near future.

Hon. Ron Huntington (Capilano): Mr. Speaker, Bill C-144, as we have been told, really extends to 1985 the \$1.5 billion borrowing limit which expires this coming March. We on this side agree with this extension. We all know that there is a limit in terms of the clients eligible for loans insured under the Small Businesses Loans Act, with \$1.5 million in sales being the ceiling. Therefore, in fact we are dealing with a true and accurate definition of the small business community.

Some of the history of the Act is quite interesting. In 1977, which was before the banks had an incentive to make loans under this Act, there was a total of 4,800 to 4,900 loans authorized. The amount of loans authorized at that time was in the order of \$96.5 billion. The average size of the loan was in the order of \$19,700 and there had been 72 claims paid under the program at that time, for a cost to the Treasury of \$632,000.

Then, in the wisdom of the House, we decided to make it 1 per cent above prime for the banks, and the banks finally had an incentive to use this insurance and to make available very important money to the innovative small business sector which wanted to take a chance in the marketplace. We then started

to see a rapid escalation in the use of the loan. Loans moved from 4,900 to 7,300 in 1978, then to 10,700 loans in 1979, and in 1982 the last figures show that there are 16,500 loans authorized under this Act, for a total since its inception of 116,500.

History shows that the Act is of value and it is starting to be used extensively. From 1977 we have gone from \$96 million to some \$427 million of loans authorized. The average size of the loan has grown by only \$5,000. We have escalated progressively through the years. The number of claims paid have increased from 72 in 1977 to 444 in 1982. Losses to the program in 1977 were \$632,000 and these increased to \$8,800,000 in 1982. Those are the preliminary figures to November 30.

It is interesting, Mr. Speaker, to look at the estimates for the program. In 1981-82 they were \$2.5 million and the forecast halfway through the year was for \$9,300,000. We can see, therefore, the effects of the high interest rate policy of the monetary system of this Government on the small business sector. We note in the Estimates for 1983-84 that it expects to spend \$13 million on the program, so the Minister and the Department of Industry, Trade and Commerce are certainly anticipating a continuation of the very troubling situation which exists out in the community.

One of my colleagues gave some figures on bankruptcies so I do not have to read those figures back into the record, but I must say that bankruptcies—and not just the formal bankruptcies—are at a very serious rate of escalation, with all of the human tragedy which they cause. Because of Section 178, which in our wisdom we put into the new Bank Act, we have now moved into an era of soft bankruptcies, where the bank, before one of the creditors of an organization triggers a bankruptcy, can move in with receiver, charge the cost of that receiver to the operation, and literally take over the cash flow of the business.

● (1600)

In spirit and intent this is a pretty good move. However, I guess like most Members I have spent hours each week involved in pretty tragic cases of businesses going down the tube when really what they need is some bridging time to get over the loss of working capital and retained earnings caused by a combination of two factors. One was the rapid escalation in interest rates, up over 24 per cent, which in turn began to slow down the world economy. Those organizations forced to pay that kind of an interest rate found themselves with inventories which were not turning over as fast and the financial liquidity of the business community was lost to the banks.

Now, I am an individual who has always respected the rule book of the banks. I do not expect the bank to lend me depositors' money without totally protecting themselves and reducing the risk to a minimum. That is why this Small Businesses Loans Act type of insurance is so important to the high-risk entrepreneur venturing into the marketplace. I think it is one of the healthier programs we have. Frankly, I think it should