

Income Tax

Will the Parliamentary Secretary explain why this particular figure was selected? Is it totally arbitrary or is there some rationale behind it?

Mr. Cosgrove: Mr. Chairman, I suppose anything in the Income Tax Act is discretionary, but that is the amount that is used throughout the Act in relation to a number of other provisions that apply to small business. An example is the low rate for small businesses and the amount that can be used for retained earnings. There can be many arguments, but that amount was used because it was thought to be reasonable and that it related to a good cross-section of small businesses. It was moved up to \$1 million in this Clause as well.

• (1550)

Mr. Riis: I thank the Minister for that explanation. I now want to ask him a question regarding taxable dividends. Over the years they allowed a small business to develop an equity base so that the small-business person would not have to go to the banks or other financial institutions to borrow money at very high interest rates. That has now been removed from the small entrepreneur. Can the Minister explain why?

Mr. Cosgrove: Mr. Chairman, I believe the Hon. Member's question pertains to Clause 109. At this point we are not even addressing Clause 9. We are addressing amendments introduced by the Hon. Member for Mississauga South. I think the Hon. Member has strayed quite a bit.

Mr. Riis: Mr. Chairman, I will direct a question that deals directly with the amendment introduced by the Hon. Member for Mississauga South. It goes back essentially to the meaning of development of a Small Business Development Bond. I remind the Minister of what he said to the Committee earlier today. He said that it cost the Government of Canada \$125 million to provide \$2 billion of borrowing to the small business sector as a result of the bond program. As the Minister will know, these investments under the Small Business Development Bond were intended for new plant, equipment, buildings, expansion purposes. In other words, when a business was thriving and there was an opportunity to expand, the Government saw fit to enable that entrepreneur to borrow under the Small Business Development Bond program, which I applaud. It was a positive step. It was a good program until it was gutted. By definition, the small business person could expand his or her operation.

Surely when a business expands with a new plant, new facilities or a new line of product, that results in increased sales tax for the federal Government, increased personal taxes as a result of employees added to the operation, and as a result of increased salaries or returns to the federal Government in terms of revenues from corporate taxes resulting from the expansion.

Can the Minister provide the Committee with the net cost to the federal Government as a result of the \$25 million paid out after the additional funds have found their way back into federal Government coffers? If these figures are not available, will the Minister hazard a ballpark guess, or will he simply

indicate there is no way to determine the net return to the federal Government as a result of moneys invested in the bond program?

Mr. Cosgrove: Mr. Chairman, that is a repetition of a question asked before the lunch break. I indicated that it is very difficult for the Government to give a hard and fast figure with regard to returns to Government coffers. I made the general observation that the \$2 billion addressed to this sector of the economy would improve that sector. I said that if the Government was going to be assisted by that expenditure of \$2 billion, it would have been assisted in managing its debt portfolio with that perceived income coming in, but the fact is that it did not. Government revenues did not increase. That is the major reason why the Minister of Finance indicated, when he introduced Bill C-143, that the Government had to seek further borrowing authority. The revenues were not there.

Another general way of testing that is the lack of performance as reflected in the poor numbers in terms of failures in this sector. That has not been very encouraging. I do not have a specific number, but the general activity in the economy, either in the health of the sector or the returns to Government, might have reflected all of those increased revenues coming to the Government. However, they have not materialized.

Mr. Riis: Mr. Chairman, just for clarification, is the Minister saying that that \$2 billion of investment in the small business sector in terms of productive capacity resulted in absolutely no tax return to the federal Government in terms of sales, personal or corporate taxes?

Mr. Cosgrove: No, Mr. Chairman, I am saying it did not result in a remarkable bulge, that is, in economic activity. That would lead to the conclusion that it was a very successful way of stimulating the economy. My officials remind me that one of the reasons is that some people in the private small business sector who took advantage of the bond may have already been planning those kinds of expansion, purchases and economic activity. What we did was assist them in the financing of those operations. Those plans may have been on the shelf for that sector in any event.

Mr. Riis: I agree wholeheartedly with the Minister. I do not think that because of the Small Business Development Bond many small businesses decided at that point to expand. I suspect it was part of their corporate decision making. That comes as no surprise.

The logic that the Minister is using is open to some question. He is saying that because there was no appreciable corporate tax return increase, no significant increase in personal or sales tax return to the federal Government, that \$2 billion stimulus to the small business sector was questionable in terms of value. Presumably the Minister has not been able to factor out the impact of this stimulus to the small business sector. Earlier today he said it cost the Government \$125 million for this program. When the Hon. Member for Mississauga South introduced his amendment, he said that his information