

The Budget—Mr. Lalonde

[Translation]

SIMPLIFYING TAXES FOR SMALL BUSINESSES

I now want to deal with the issue of simplifying the tax treatment of small business. An important part of the government's responsibility to the private sector is to keep the rules of the game simple and clear. Far too much talent, money, and productive effort is being misspent on keeping complicated records, filling out difficult forms, and trying to understand increasingly complex legislation. The Minister of State for Small Business and I have received numerous representations about the complexity of small business taxation. With the advice of small business organizations and tax practitioners, I have devoted considerable effort to simplifying the tax system.

Tax simplification can free valuable resources for the critical tasks of running a business and making it grow. I recognize that the tax system must inevitably be complex to some degree in order to deal fairly with the wide variety of circumstances that characterize a complex economy. But I am determined to simplify it where possible. I propose to take a significant step tonight, but I recognize that more remains to be done. I intend to continue my efforts in this regard.

[English]

Canadian small businesses are the main source of entrepreneurship, risk-taking, and job creation. It is, therefore, an appropriate area to begin tax simplification. Streamlining their tax regime can be as important as the considerable financial support that the government already provides.

I shall table a paper with this budget containing proposals for a major simplification of the income tax regime for small businesses. The original purpose of the cumulative deduction account was to limit the low tax rate for small business to companies having less than \$1 million of cumulative business income. However, it meant that all small business corporations had to keep track of this account regardless of their size. The cumulative deduction account is a prime source of legislative and administrative headaches. I propose to eliminate it. This will reduce paperwork and record-keeping for almost 300,000 small Canadian companies.

The administrative burden on small businesses will be eased further by eliminating the distinction between active business income and non-qualifying business income, and by simplifying the legislation dealing with specified investment businesses, personal service businesses, and corporate partnerships.

These proposals will cut the small business tax legislation by two-thirds, shorten and simplify the tax form, and lighten the burden of record-keeping. The measures will also provide more tax savings for growing small and medium-sized businesses. In the first full year of operation, federal taxes for Canadian controlled private corporations will be reduced by \$150 million.

In my consultations on tax simplification, I heard many Canadians say that the rapid pace of change in the tax system in recent years was itself a cause of complexity. Accordingly, I want to allow time for interested parties to comment on these

measures. The paper I shall table contains detailed proposals and draft legislation. I hope to receive comments by April 15 and to introduce legislation shortly thereafter. The measures will take effect following enactment by Parliament.

IMPROVING THE FAIRNESS OF TAX ADMINISTRATION

Canada's tax system is based on the principles of self-assessment and voluntary compliance. Because of the complexity of our tax laws, however, taxpayers often experience difficulties in completing their returns. It is becoming increasingly difficult for them to be sure they are complying with the law, and also to be sure they are claiming all the tax relief to which they are entitled.

Demands have increased for Revenue Canada to provide information, assistance in the preparation of returns, advance rulings, and other similar services to taxpayers.

The Minister of National Revenue has appointed an independent expert to undertake a thorough review of the administration of the Income Tax Act. The purpose is to find out what steps need to be taken to make Revenue Canada's service more responsive to the public without detracting from fulfillment of its responsibilities. But some legislative action can be taken immediately.

In response to representations by my colleague, the Minister of National Revenue, I propose a number of immediate changes in the law that, taken together, should contribute significantly in relieving the administrative burden on taxpayers and improving the fairness of tax administration.

The quarterly tax payments are a serious burden to many senior citizens. Therefore, I am increasing the existing \$400 annual tax threshold below which individuals are exempted from having to pay quarterly tax instalments. The new threshold will be \$1,000 and will be extended to corporations. In addition, where interest on late or deficient tax instalments is less than \$25, it will not be assessed. These new thresholds will mean that tax instalment obligations, and the associated burden of paperwork, are eliminated for about 350,000 senior citizens and over 50,000 corporations, most of them small business and family farm corporations.

● (1650)

I propose a package of legislative initiatives to improve tax administration. A number are designed to facilitate the resolution of taxpayer disputes and appeals.

The period for filing formal objections to tax assessments is being extended from 90 to 180 days. In addition, rather than being required to pay taxes in dispute, taxpayers will be entitled instead to provide adequate security.

More generous provisions will be introduced relating to the awarding of costs on successful appeals to the courts. In particular, the Tax Court of Canada will be allowed to order Revenue Canada to pay up to \$1,000 of the costs of a taxpayer's successful appeal.