

Income Tax Act

the payment of tax somewhat, but it would not cost anything. To the extent that it would delay the payment of tax I suppose it would cost something, but one of the things this government always talks about, but never does anything about, is relieving the paper burden and reducing the overhead costs of small business.

One of the enormous factors in overhead is accounting costs. This is particularly so for a small business with one or two employees trying to run a store or small professional office. There is a requirement to be on an accrual basis, to pay tax on money not received, to take reserves for doubtful accounts and to do everything, from an accounting point of view, which is appropriate for large businesses. This creates a burden for a small business because a small business does not have the necessary equipment or ability. Small businesses must hire extra accountants and others for help. If the government really wanted to encourage small business—and perhaps even unincorporated small businesses—and if it wanted to do it on that basis, it would do a great deal to stimulate activity and employment. Some of the things which drive a man out of his tree are the paper burden and accounting costs.

Many of us have spoken today and previously about the enormous complications of the Income Tax Act. It is horribly complicated even for the most sophisticated accounting firms. It has been suggested that very few accountants or lawyers in this country could say honestly that they understand the Income Tax Act from cover to cover. In the small towns of this country, away from such sophisticated and large accounting houses as Clarkson Gordon, Coopers & Lybrand, Laventhol and Horwath and Deloitte, Haskins & Sells, there is just no one who really understands the act and where we are going with it.

One thing which would help those areas particularly would be to go back to the cash accounting basis for small businesses. As I said, the cost to the government would not be too great. People would have to pay tax anyway. It is only a question of when the tax becomes payable. On a cash basis the tax is obviously not payable until you receive the money. That is the way it is for farmers. That is the way it will be for fishermen. Why can we not have it that way for the small storekeeper, the small professional or the person who is trying to get going in order to make Canada grow? Why do we have to impose on these people the horrors of accrual accounting and the tax implications of accrual accounting?

Another provision in the bill is with respect to the 3 per cent inventory allowance. All businesses today are suffering. The report of the Economic Council of Canada clearly points to the problem of inflation. Last year there was more inflation in Canada than in any of the years going back to wage and price controls. Preliminary figures already show that the rate of inflation this year will be in excess of anything we have ever had before. Despite the projections of the Minister of Finance in his budget, which he now disclaims, all indications are that the rate of inflation will be very close to 12 per cent this year. For business people that means that while they do their capital cost allowances on an historic basis, in many cases when

equipment which has been depreciated wears out, it cannot be replaced because when a businessman goes to purchase equipment he finds that its price has increased two or three times.

It is not uncommon in the construction industry for people to sell four or five-year-old bulldozers for more money than they paid. Farmers today are often able to sell their tractors for more than they paid three, four or five years ago. That is not uncommon at all. That is the result of inflation.

There is nothing in this bill—including the inventory allowance which, to some extent, has been justified in order to cover the inflationary cost of replacing inventory—to solve the problem business people face because of the fact of inflation and the fact that our Income Tax Act at the present time, while it allows one to write off equipment on a capital cost allowance basis, does not allow one to reserve from profit the inflationary fact to enable the replacement of equipment and machinery without further investment of capital.

I would like the minister to give us his views with respect to inflation accounting, interest rates, and the Small Business Development Bond. Could he also talk about a cash accounting system for people other than fishermen and farmers?

Mr. Shields: Mr. Chairman, it gives me a great deal of pleasure to speak on Bill C-54, a ways and means bill to amend the Income Tax Act. It is very obvious that there is absolutely nothing in this bill for farmers, fishermen, or small businesses. As my colleague previously indicated, farmers, fishermen, and small businesses are facing extreme hardship because of high interest rates.

The small businessman has to carry an inventory. That is the lifeblood of his business. He has to carry that inventory at prime plus 2 per cent, which is about 20 per cent. There is nothing in this ways and means bill which deals with this, yet we are asked to approve a bill which would allow the government to borrow a great deal of money. One cannot help but ask whether we are borrowing this money to assist, for example, motorists from the northern United States who come across our border daily, or three times a week, to gas up their cars because gas is so much cheaper here in Canada. Two dollars of every six the American motorist saves at the gas pump in Canada is directly subsidized by the Canadian taxpayer. Is that why we are borrowing money?

Are we also borrowing money to subsidize foreign fishing fleets which come to our shores to fill up with fuel? For every \$6 saved there is a direct subsidy of \$2 paid for by the taxpayer of Canada. That is one third. That is ridiculous. The whole thing escapes me.

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Are we looking also at the airplanes, the overseas aircraft which land in Canada with their fuel tanks empty, and fill up here? For every \$6 they save, we pay one third which is directly subsidized by the Canadian taxpayer. All this government can do is borrow more money.

In my view there is something wrong there, there is some rot that is eating away at the core of this government. I cannot see