

expenses which will enjoy the benefit of the exemption, regardless of who incurs these expenses.

The longer amendment in section 21 which deals with deferred profit-sharing plans, and which now provides that the tax will not attach until the profits are actually paid out, I think is a very good one. As honourable senators know, when payments are made now into a pension plan—I am not talking about a profit sharing plan, but a pension plan—these payments are not taxable in the year in which the payments are made into the fund, but they are taxable in the year in which the pensioner receives them. As the honourable senator from Winnipeg South has said, after retirement, when the pension comes into being, it is normal to expect that the pensioner's level of income will be lower than it was during his working days and therefore the rate of tax will be lower. But heretofore payments made into a profit-sharing plan have not enjoyed such tax treatment. During the working days of the man who is the beneficiary of a profit-sharing plan he had to pay the tax at the higher rate on whatever was paid for his benefit into the fund which supported the plan. Now the situation will be relatively the same, certainly comparable to the position which obtains in respect to pension plans. I think the measure is a good one.

On the question of the federal-provincial tax-sharing arrangements I have very little to say. I think we shall be able to get better information in committee than any of us would need here. I did notice, and I could not help but notice it, that seemingly this new arrangement involves a setting aside of the principles of the Rowell-Sirois report, made during the late Great War. I understand under this new arrangement there are special arrangements to be made, province by province. I am not prepared to debate here whether the new proposal is as good as the proposal put forward in the Rowell-Sirois report, or whether it is as good a proposal as the tax rental agreements which were negotiated from time to time with the provinces. I think in committee we might give some consideration to that phase of this amendment.

**Hon. Calvert C. Pratt:** Honourable senators, there is just one matter in connection with this bill to which I should like to refer. It is the special provision made for consideration in taxation matters of expenditures on research. I think research—particularly industrial research—is most important for Canada. A comparison of expenditures on

industrial research in Canada with those in other countries reveals we are doing relatively little in this matter. Of course, I know we are doing some research. Our total expenditures on industrial research run over \$150 million annually, but in comparison with the sums spent elsewhere this is very small. As I stated here on a previous occasion, expenditures on industrial research in the United States are 40 to 50 times greater, in terms of dollars, than those in Canada. We talk a good deal about outside capital coming in, but I think one of the subjects which should be featured a great deal more than it is in our debates is the extent to which our industry is dependent upon research in other countries. If we separate ourselves to any degree from association with companies abroad, industry will just go down in accordance with the degree of separation.

I gave this information before, but I will repeat it. Several hundred United States affiliated companies in Canada have full access to and full use of the results of scientific research in the United States, and 50 or more Canadian firms have access to research by affiliated companies in the United Kingdom. Of course, we cannot expect to maintain research at as high a level as some other countries do. However, industrial research is a matter of great financial consequence and is growing year by year in international importance, and I think our Government should do everything reasonably possible to encourage research by industries in Canada.

We do not know the extent of the assistance that is provided by this bill, for we have not had an opportunity to study it, but I am glad that at least some assistance is promised. We should make a close study of the practical features of research by industry. Merely to grant a tax concession on expenditures for industrial research is not sufficient. In the United States, of the tremendous expenditures made by industry on research and development, over \$4 billion is repaid annually to industry by the federal Government. The direct benefit of that comes from the fact that research is financed in the channels where industry can be developed. This is a pattern that should be followed in Canada in many fields of industry where there is promise of development through industry.

Motion agreed to and bill read second time.

#### REFERRED TO COMMITTEE

On motion of Hon. Mr. Thorvaldson, bill referred to Standing Committee on Banking and Commerce.