

Income Tax Act

because of this program. In the process of so doing it is certainly contradicting past-stated Government intentions to reform Revenue Canada and tax collection in Canada.

What is being set aside in Bill C-109 constitutes one of the basic principles which the Conservatives fought to have enshrined in legislation namely, the right of taxpayers prior to the payment of any taxes they may dispute to have access to a fair and impartial hearing and to the courts if necessary. The need to collect as much of the taxes owed from this program has become paramount to the rights those involved would normally enjoy under the Income Tax Act.

What we find here is that the Conservatives in their task force on Revenue Canada prior to the election demanded a different code of conduct. I would now like to quote from the Conservative's task force report which states in part:

When an assessment is issued a taxpayer should not have to pay taxes which are in dispute until the time for a formal objection has passed. If the taxpayer appeals, no payment of those amounts should be required until the appeal is finally resolved.

The declaration of taxpayers' rights issued by the Government declares: "You are entitled to object to an assessment or re-assessment if you think the law has been applied incorrectly." It goes on to state that the individual has the right to withhold amounts disputed in formal objections until an impartial review by the Department or the courts has been completed.

Bill C-109 clearly violates the letter and spirit of these commitments and is therefore testament to Government inaction which extends back to the time the legislation proclaiming the SRTC program was put in place. The present Government certainly has nothing to be proud of with respect to cleaning up this program, and certainly not for this Bill.

I would now like to deal with some of the history of the Bill. It was introduced in the Lalonde Budget. It was meant as a quick fix in order to obtain an instant infusion of capital funds into research and development projects. In many ways the intent of the legislation is noteworthy. To attempt to encourage research and development through the taxation system certainly created some problems for smaller firms. To give special deductions and encouragement through the taxation system to those doing research and development only helped those corporations which had income on which to pay tax from which they could deduct these tax credits. Thus the Government of the day devised a scheme by which it could sell these tax credits so that small research and development companies could sell their losses to other companies and other business people, therefore gaining some revenue for themselves with which to finance part of their research efforts.

What the business community found was the attractiveness of the "quick flip". Perhaps the best description of how the "quick flip" works was given by the CBC's *Fifth Estate* on January 26, 1986 which provided the following description of the program:

Let's pretend a scientist has a \$100 project but no money. What he can get is a \$50 tax credit from Ottawa just for his \$100 idea. But our scientist doesn't have any money. So he goes to a rich guy, or a big company. The credit's worth \$50 at Revenue Canada when it comes time to pay your tax. The scientist sells the credit for \$40. So after the quick flip of the tax credits, the scientist does have \$40 for his project—all Ottawa's. And the big guy has saved \$10 or maybe \$10 million on his taxes without any real investment in the project at all. With alchemy like that, who needs science.

Were the "quick flip" provisions foreseen? The Auditor General stated the following in answer to this question:

—we were told by the Department of Finance that the 'quick flip' arrangement was clearly envisioned from the outset of the program to make the incentives of immediate benefit to firms.

This was later confirmed by Finance officials who appeared before the Public Accounts Committee. So there was an awareness that the "quick flip" would be in operation.

In fact, first reading of the Bill was given in December of 1983 with Royal Assent being given on January 19, 1984. As of December 31, 1983, the program had become so popular that \$542.3 million in tax credits had been claimed even though the original intention of the program was a loss of some \$100 million in tax revenues to the Government. By the end of 1983, before the Bill or this provision had received Royal Proclamation, \$542.3 million in tax credits had already been claimed.

The concern about the excessive use of the program prompted the Department of National Revenue to issue a statement on January 30, 1984 which stated that along with the Department of Finance "monitoring of the effectiveness of these new SRTC provisions to ensure that the intent of the legislation would be achieved and there would be no abuses."

Yet when the issue was raised again in the House by my Leader on June 4, 1984 the program had now cost the taxpayers 10 times what had been estimated—\$1 billion. The Minister of Finance at the time, Marc Lalonde, interpreted this financial loss to the taxpayers as an indication that R and D was being heavily financed. Even at this point there was no way of telling if any R and D was being done.

The next day, June 5, the Department of National Revenue issued yet another press statement indicating that it was going to "establish an appropriate monitoring system". In other words, on January 13, 1984 the Departments of Finance and Revenue had stated that they would begin monitoring the program. We found out on June 5 that they did not even set up a monitoring program.

This brings us to October 10, 1984 the old Government having been defeated and the new one put in place. The Minister of Finance (Mr. Wilson) rose in the House of Commons and introduced a moratorium on the "quick flip" provisions of the program. However, much to the objection of members of my Party he allowed and provided for a convenient loophole; that is, a grandfathering clause for those still interested in the "quick flip". The press statement at the time had this to say: