

Income Tax Act

(2) This section is applicable after

Amendment (Mr. Turner (Ottawa-Carleton)) agreed to.
Clause, as amended, agreed to.
On clause 14.

Mr. Saltsman: Madam Chairman, what is the rationale behind allowing scientific work done by a corporation to be deducted in the year of its choice? Presumably the deduction will be made in the year when it is most profitable. Section 37 of the Income Tax Act already confers substantial benefits on those doing scientific research in Canada. Do the representatives of the industry suggest to the minister that the present generous provisions are not enough? Is that why he has improved write-off provisions? Also, will the minister tell us what are the safeguards in this bill? How can we make sure that the benefits of scientific research expenditure, which should accrue to the benefit of the people of this country, do not accrue to the people of other countries?

Mr. Turner (Ottawa-Carleton): Madam Chairman, this provision seeks to lengthen the period in which expenditures for scientific research can be claimed. Say, for instance, the hon. member and I went into business as equal partners and decided to spend \$100,000 on scientific research. If, in the next two years, we did not make much profit, we could find that the limited period in which research expenditures could be claimed would deprive us of our ability to deduct an adequate amount. In other words, it has been found that the short period in which expenditures can be claimed has discouraged research expenditures. If the hon. gentleman and I could claim research expenditures over five or ten years, we should probably take more risks and spend more on scientific research. I think he and I agree that such activity is in our national interest. That is the purpose of this provision.

What is the guarantee? First, the activity must be certified by the Department of Industry, Trade and Commerce. Section 37(3) of the statute now reads:

The minister may obtain the advice of the Department of Industry, Trade and Commerce, the National Research Council of Canada, the Defence Research Board or any other agency or department of the government of Canada carrying on activities in the field of scientific research as to whether any particular activity constitutes scientific research.

The Minister of National Revenue reinforces the importance of the certificate.

Mr. Saltsman: Madam Chairman, I want to know what guarantees there are that scientific research done in Canada would be of benefit to Canada. I do not doubt that research must be certified as being scientific research; the fact remains that this research is largely done by international corporations. How can we be sure that scientific research done in this country is for the benefit of Canadians, and will not be transferred to the head offices of foreign companies?

Mr. Turner (Ottawa-Carleton): Madam Chairman, section 37(2) of the act deals with that point. It says in part:

There may be deducted in computing the income for a taxation year of a taxpayer who carried on business in Canada and made expenditures in the year in respect of scientific research carried on outside Canada, all such expenditures of a current nature made in the year

[Mr. Turner (Ottawa-Carleton).]

(a) on scientific research related to the business and directly undertaken by or on behalf of the taxpayer; . . .

In other words, a Canadian subsidiary can contract with a parent in the United States to do research directly related to the subsidiary's work in Canada. I continue:

(b) by payments to an approved association, university, college, research institute or other similar institution to be used for scientific research related to the class of business of the taxpayer.

Mr. Saltsman: I appreciate the minister reading these sections, but what guarantee is there that we are encouraging research which will accrue to our national interest? We take care of the national interest in other legislation. For example, the foreign investment review bill has laid down criteria having to do with whether the proposed take-over is in the national interest. Let us be certain research accrues to the benefit of Canada. Consider the matter of patents. Hardly any patents are taken out in this country. New discoveries have been made, and, where a patent has been taken out, it has been taken out by the head office of an international company, which gets the benefit. I realize that this is hardly the time for a fight about guarantees, but we must make sure that our tax system provides for the benefits of research to accrue to Canadians.

● (1540)

Nevertheless, it is important to make this point and to point out the inadequacy of this provision, particularly when the minister is increasing the benefit substantially to these companies through clause 14. Under these circumstances, the government has a responsibility to start designing legislation that will assure the House that the money being expended will accrue to this country.

I have one other question for the minister. Looking at the clause, it appears the minister is allowing the companies to capitalize their expenditures by permitting them to carry them out over a number of years or choose a particular year in which they can be written off against investment. This is a form of capitalizing expenditures in the same way that machinery is capitalized over an extended period of time. Normally, anything considered an expense has to be written off in the year it occurred.

Since this provision has this element of capitalization, and since the minister's objective is to improve the incentives for scientific research in Canada, why not simply go to a capitalization approach rather than this very awkward and involved method?

Mr. Turner (Ottawa-Carleton): Because you cannot write off a capital asset in one year. You are then stuck by whatever the depreciation clause is. Here the businessman has the option of writing it off in one year or over several years, depending on his profit picture against which he can write off an expense. We are giving him the option. If we were to capitalize it, he would be caught with the depreciating rate on a diminishing balance, depending on the class of expense. We are doing a little better for him this way.

The Assistant Deputy Chairman: Shall clause 14 carry?

Some hon. Members: Carried.