

*Income Tax Act*

counted was of little value. I think the Hon. Member's suggestion that it increased the flow of money into research is for the birds.

**Mr. Johnston:** Mr. Speaker, the Hon. Member takes issue with the association which testified to the effect—

**Mr. Orlikow:** It has an interest in protecting itself and its members.

**Mr. Johnston:** The Canadian Advance Technology Association has numbers which say it was valuable. However, the Hon. Member just underlined the other point I made, on which I thought he was going to comment. In 1983 it was \$4.8 billion. In 1984 the Government empowered, I think it was September 18, \$5.5 billion, and then under a Conservative Government we moved from \$5.5 billion to \$5.8 billion in a period of strong economic growth. Measure that as a percentage of GNP, Mr. Speaker, and see where it gets you.

**The Acting Speaker (Mr. Paproski):** I believe the Hon. Member for Stormont—Dundas (Mr. Warner) had a short question.

**Mr. Warner:** Mr. Speaker, I have a very brief comment. The Hon. Member for Saint-Henri—Westmount (Mr. Johnston) is an acknowledged tax expert and I was surprised at his remarks with respect to the equity of the capital gains tax exemption. He knows this initiative is certainly one which is encouraging people to invest in high risk areas. He has identified scientific research as an area which does involve a higher degree of risk than most investments. I am also surprised that the Hon. Member would suggest that this has a certain amount of inequity when most of the capital gains over the last two or three years have been really inflation and very little has been real income. I would suggest that perhaps this initiative not only serves investment well in high risk areas but also provides a much higher degree of equity to our tax system.

**The Acting Speaker (Mr. Paproski):** Does the Hon. Member have a rebuttal?

**Mr. Johnston:** Just a comment, Mr. Speaker. I believe my friend is the victim of his own propaganda. He is an experienced businessman. He knows the capital gains tax exemption is applicable to assets sold anywhere in the world. It is completely unfocused. I know many people who have taken advantage of it. They have sold assets, they have gotten out of the market, and some have sold out of the Canadian market and moved into the United States market. What that does for Canadian research and development is indeed a mystery to me.

I believe it is one of the silliest, most counter-productive measures, and it is complex as one can see from the new bulletins which have been introduced—which we said would be the case—to prevent abuses arising. There are things to do on the capital side, I acknowledge that, but this is certainly not the answer.

**The Acting Speaker (Mr. Paproski):** The period for questions and comments is now terminated.

**Mr. Simon de Jong (Regina East):** Surely Bill C-109 stands as an indictment, first, against the former Liberal Government for the program it introduced, the sloppy way in which it was thought through and its inability to control and stop the hemorrhaging of public funds even though that became known before the act was actually proclaimed. It stands as well as an indictment against the present Government which sought to stem the hemorrhaging of funds shortly after it got elected when it introduced a moratorium on, I believe, October 10, 1984, and yet allowed a grandfathering clause where continuing cases of abuse occurred.

As well, Bill C-109 stands as an indictment against the "free enterprise" notions of this and the former Government. It is the notion that if we just shovel money to the private sector it will know what to do with it, will put it to good use and everyone will benefit. As well, it is an indictment against the Government's attempt to reform the tax regime in Revenue Canada.

What does Bill C-109 allow the Government to do? It allows the Government to perform assessments and collections immediately as they relate to deductions made under the scientific research tax credit scheme. The rights of those involved not to pay the taxes until their return is filed, and the right to have their cases heard are being removed. In other words, the whole question of the taxpayers' bill of rights is disappearing.

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Bill C-109 is being introduced in order for the Government to have the full legislative authority to assess and collect immediately taxes owed from those who have made use of the scientific research tax credit program which is Part VIII of the Income Tax Act. The need for this was expressed in the Department's press release of March 26, 1986, which referred to two circumstances which have prompted this legislation.

The first circumstance concerns two Federal Court cases which have resulted in conflicting decisions. The first case involved Bechtold Resources which had objected to the ability of Revenue Canada to assess and collect some \$16 million in Part VIII tax prior to the filing by the corporation of its tax return. The court found in favour of Bechtold. The second case involved Western Technologies Inc. On this occasion the Federal Court found that the Department of Revenue was within its rights to both assess and collect Part VIII tax prior to the filing of a return. Both cases are currently under appeal.

The second reason cited in the March 26 press release was the evidence that individuals who controlled corporations utilizing the SRTC program were immigrating with those funds without paying the Part VIII tax owing. Once out of the country it is impossible for Revenue Canada to collect the taxes. In other words, Bill C-109 is an attempt by the Government to capture some of those revenues which have been lost