

Industrial Research Incentives Act

So the amendments proposed in Bill C-193 which is now before Parliament do not aim at changing the purposes of the act; they are of a strictly technical nature and are suggested to remove the anomalies discovered by the working group I mentioned earlier.

We all know here about this IRDIA program, and that under this program, grants and credits are paid by the government, namely:

(a) 25 per cent of all capital expenditures involved (to acquire property other than real estate), to promote scientific research and development in Canada, and

(b) 25 per cent of the increase in current expenses made in Canada for research and development according to such average expenditures for the five past years.

Those grants are not subject to the federal income tax. Therefore, they should be added to the 100 per cent deduction allowed for research and development expenditures in Canada under the Income Tax Act.

It will be sufficient to quote a few figures to show what has been done in this regard since the act was passed three years ago. The grants were in the following amounts. I have here a small table which I should like to place in *Hansard*, Mr. Speaker, if the House agrees thereto.

Mr. Deputy Speaker: Is it agreed?

Some hon. Members: Agreed.

[*Editor's Note: Table referred to above follows:*]

	No. of applications	Grants
		\$ million
1967-68	111	2.3
1968-69	464	20.2
1969-70	630 (est.)	22.7 (est.)
Total	1,205	45.2
1970-71	not available	\$30.0 (est.)

Mr. Pepin: The above table shows that, in the last three years, 1,205 applications have been made for a total of \$45.2 million. I should add that, for 1970-71, appropriations of \$30 million for that program have been included in my department's estimates. Each grant averages to date \$37,700.

Experience has shown that about 78 per cent of the grants have been used for current expenses. When one tries to estimate the

general effect of that program on research and development, one can cite as an example that the amount of research made in Canada reached \$80.8 million last year and that it went up this year to \$100.8 million. These are current expenses allowable during the period between 1968-69 and 1969-70. The program has therefore led to a significant increase in the amounts earmarked for research in Canada.

[*English*]

We come now to the four amendments of Bill C-193. The four technical changes—I emphasize they are only technical—are the following: Section 1 has to do with associated corporations. At present, the act states that companies are associated with one another if they are associated for the purposes of the Income Tax Act. This provision was introduced into IRDIA in order to prevent associated companies not dealing with each other at arm's length from divesting themselves of base period expenditures by cycling research and development from one company to another year by year. Experience has shown that this provision creates an unintended hardship on some associated companies which actually deal with one another at arm's length and which cannot therefore influence the base period expenditures of one another. For example, two companies have been disqualified for grants which otherwise would have totalled \$176,000 and 15 other companies have suffered reductions in grants totalling \$325,000 because of the associated companies provision.

To remove this anomaly, the proposed amendment would permit the minister to decide that companies are not associated for the purposes of the act in cases where they are dealing with one another at arm's length. Apparently there is no other way to do it than by ministerial discretion. I promise my distinguished friend from Prince Edward-Hastings that I would be respectful of traditions and of virtue when I make such decisions.

Mr. Hees: Especially virtue.

Mr. Pepin: The second section has to do with repayments to Her Majesty. Under the act at present, a company may include in its grant application repayments to Her Majesty of amounts advanced to the company under an appropriation act for the purpose of advancing and sustaining the technological capability of the manufacturing industry. As a result, changes have been made in some of the pro-