

Research

taxable companies incorporated in Canada without discrimination as to type or class of industry, size, ownership or profitability.

Since 1962 the Income Tax Act has provided an incentive for this purpose whereby companies have been able to deduct from their income an additional allowance of 50 per cent of the amount by which their expenditures on scientific research exceeded their total expenditures for this purpose in the 1961 base year. In the intervening years, this incentive appears to have had a beneficial effect on industrial research expenditures generally, the most marked improvement being in the area of capital expenditures. However, a number of problems and shortcomings in its operation have become apparent which is evidenced by the fact that in 1963 only 265 out of a total of some 600 firms performing research and development were able to claim benefits under the additional allowance. The proposed legislation is designed to overcome these deficiencies.

In the first place, the use of the income tax laws as a vehicle for subsidizing research and development effort is essentially discriminatory since eligibility depends on the firm's tax position. Under these circumstances, many small or growing firms which are not yet in a profit-making position, but which perhaps have the greater need for research and development assistance, are excluded. Hence, in order to broaden the availability of the general incentive and in the interests of equity, it is proposed to remove it from the Income Tax Act and to provide a system of statutory grants, or credits against tax liabilities if firms so choose, for which all firms could qualify. Further, unlike a tax allowance, the cost of a grant system is readily apparent and can be accounted for to parliament in the same way as other expenditures.

Under section 72A of the Income Tax Act, operating and capital expenditures were combined for the purpose of establishing the base and for calculating the additional allowance. Since capital expenditures fluctuate widely from year to year, this provision presented a serious handicap to those firms who had made major expenditures in the 1961 base year.

● (12:10 a.m.)

In our view, all capital expenditures for new facilities or equipment represent a *prima facie* expansion in the research capabilities of a firm and therefore should qualify fully for the bonus without regard to any base. Accordingly, we are proposing to treat capital

[Mr. Drury.]

expenditures separately from operating expenditures for the purpose of the new incentive.

With regard to operating expenditures, the incremental feature is being retained, since the primary objective of the incentive is to produce a major expansion of research and development activity. To retain the effectiveness of the incentive and at the same time to improve its suitability for a program which is expected to continue for some years, a moving average base rather than a fixed base will be employed. Further, with regard to the determination of eligible research and development for the purpose of this incentive we are proposing to adopt a broader definition to emphasize eligibility and to bring the definition into line with the accepted international usage.

Finally, the responsibility for administering this new incentive program will be placed in the Department of Industry which has been charged by parliament with the responsibility for promoting the growth, efficiency and improvement of Canadian industry.

The government is convinced that a substantial increase in the level of industrial research and development is essential if Canadian industry is to accelerate its productivity and grow both in scope and size. The legislation envisaged by the bill before us will make a major contribution to the achievement of this goal.

Mr. Fulton: Mr. Speaker, there is a question which I should like to put to the minister. I understand that there is some agreement with respect to expediting the passage of certain measures today and I am the last person to suggest that we should depart from an understanding. I regret that I had not understood the implications of the apparent understanding. To my mind this is an extremely important and far-reaching measure and I think it is a mistake to try to pass it at a quarter past 12 four days before Christmas when obviously we are not going to have the kind of discussion which the measure merits. I think that there should be, and there may well be, some discussion going on among the house leaders. I hope I will not be accused of a breach of understanding if I suggest that we should certainly go no further than second reading tonight and be afforded an opportunity to discuss this measure further in committee after Christmas. I say this because it is a very important and potentially far-reaching measure.