

not occur. I would favour a tax credit of 25 per cent in relation to capital expenditures and, separately, for current or operational expenditures bearing in mind the lumping feature I mentioned a few moments ago.

As far as current expenditures are concerned, the provision of a base level of research and development expenditure qualifying for the full 25 per cent tax credit favours small entrepreneurial firms which play the most important role in technological innovations, and whose needs for financial assistance are greatest. Most of the firms which fall into this category are Canadian-owned; they are native industries which I believe we should support to a much greater extent than at present. Larger firms with research and development expenditures in excess of the base level—and I think in terms of a million dollars being the base level—should receive the incentive, but only with respect to increased research and development effort above that of the previous year or above the threshold level, thereby preventing windfall benefits and short term profits.

Capital expenditures should be treated separately from current expenditures and receive the full 25 per cent tax credit on the grounds that new research facilities represent a *prima facie* expansion of the capability of a firm to perform in this area. A feature of this kind was included in the former IRDIA program which succeeded the 1962 special allowance feature which was discarded in that year. I think it was about 1975 that the IRDIA program was discontinued. I feel that capital expenditures should not be subject to the incremental feature, in other words, that the full expenditure should be subject to benefit.

In the case of newly established or small firms, I see an anomaly. It often happens that such firms have insufficient tax liability to take advantage of the proposed incentive. I would therefore suggest we consider giving them the option of a cash grant in lieu of any unused tax credit arising from their research and development expenditures. This was recommended in the brief of the Canadian Manufacturers' Association which I mentioned earlier. In order to prevent abuse of the incentive, I think there should be safeguards to ensure that R and D qualifying for the incentive is carried out in Canada and that the results are exploited in Canada for the benefit of the Canadian economy. I believe the tax credit route would permit us to give the program a strong Canadian orientation and, to my mind, this is essential, particularly where small firms are concerned.

In a branch plant economy, the branch plant can obtain long term financial assistance from the parent, whereas a small, new Canadian firm has no such opportunity. As I say, I believe we should give serious thought to helping such firms and this is one measure which could be used, though, of course, there are others. This would at least be one small step in the right direction.

**Some hon. Members:** Hear, hear!

**Mr. Sinclair Stevens (York-Simcoe):** Mr. Speaker, in joining this debate as the last spokesman for my party before the House divides on the motion put by my hon. friend from

### *Income Tax Act*

Capilano, and also on the main motion with respect to the third reading of the bill, I think it might be useful to summarize some of the most important aspects of what has occurred in relation, first of all, to the budget of April 10 and then, subsequently, to Bill C-56.

I shall not reiterate the very valid points made by my hon. friends with regard to clause 6 underlining our belief that the research and development proposals contained in that clause could be improved upon. It is most unfortunate that we were not given the opportunity in the committee of the whole to have a better discussion of our proposals in connection with the research and development provisions.

In the second place, clause 14 deals with the corporate family farm rollover provisions, and many of our members have serious questions to raise concerning the proposals the minister has put forward. We feel they could be improved upon, but again, unfortunately, because of closure we were not given ample opportunity to debate and discuss the question with the minister. Then again, I would remind the House that there is tremendous concern across the country among credit unions and others in connection with the minister's proposals regarding RRSPs. He is proposing a tax on lump sums a person might have in an RRSP at the time of death. We believe the effect of this could have been softer; there are other methods which are available.

These are three separate areas of concern which many members wished to advance and deal with, but unfortunately we were cut off by closure. The motion placed before us by my hon. friend from Capilano gives the House an opportunity to refer clauses 6 and 14 back to committee so they can be dealt with as they should have been in the first place.

The other matter to which I wish to refer was discussed briefly. Unfortunately, we could not discuss RRSPs fully because closure took hold, and there was no longer any time left for further debate.

● (1622)

The fourth thing I would like to mention is the fact that we never did get a clause in this bill which really is a reneging of the minister's earlier position with respect to the taxation of cash surrender values in life insurance policies. The minister is now saying that the interest which might have been paid on a loan, for example, with respect to cash surrender value in a life insurance policy is no longer an amount which can be credited against capital cost with respect to cash surrender value. The net result is that the taxation of cash surrender values which the minister assured us would not occur because of the new provisions in this bill, will in fact occur. If I had been given an opportunity to discuss that with the minister in the committee of the whole, I think we could have made some very valid arguments showing why the present provision is most unfortunate. If the government does not realize the consequences of that clause now, it certainly will as we go down the road if this bill is passed in its present form.

Many hon. members will recall that I also raised a point about how harsh the government has been with small busi-