

Income Tax Act

Of course if those same taxpayers turned around to the bank and asked for consideration because they have had trouble, we know what would happen. We can tell that from the number of forced bankruptcies and forced seizures of farm property by banks in western Canada.

I should like to focus now on the question of banking centres. This is mainly a technical Bill, but the IBCs are in fact a very costly tax break which may be of great benefit to financial institutions in Vancouver and Montreal that make use of it, but will be of little use to the economies of those two cities. Like many other corporate tax preferences, the cost of the measure is unknown. When the Department of Finance, through its Assistant Deputy Minister, came before us we asked for it to justify this IBC measure. Members of the committee from all Parties said, "we have questions about this matter". That was not because my Party is opposed to looking for ways to develop banking and financial business in Montreal or Vancouver. We are not opposed to that. We are looking for ways by which that could be done, but we are questioning this particular measure because it is an open-ended tax measure with questionable benefits in terms of jobs.

We asked the Finance Department how many jobs might be produced, and in the end it came up with an estimate which was equivalent to approximately 11 jobs in Vancouver and Montreal. I see the Hon. Member for Kamloops—Shuswap (Mr. Riis) who is looking rather questioningly at me. I think that is to be questioned as well.

The Hon. Member for Mission—Port Moody (Mr. St. Germain) has just come into the House, because he presumably thinks that this might be a good arrangement for his community. When he goes back to his constituents in the 1988 election campaign he should explain to them why the major measure for job creation and economic development in Vancouver, for which he voted, was a measure which gave Vancouver maybe 20 per cent or 25 per cent of 11 jobs through international banking centres. That was all he was able to do for his constituents. At the same time the unemployment rate in Vancouver remains at a level of 10 per cent or 11 per cent, or some such level. It has not come down appreciably to levels that would have been seen to be tolerable in Vancouver and in British Columbia. The Hon. Member for Mission—Port Moody should answer that kind of question, because it is the ridiculous kind of thing we are facing, but at what cost?

When the finance committee looked at the particular measure we looked at the tax implications because of what could happen if the banks were to transfer funding into Canada from just their Bahamian branches. We did not touch the business of Canadian banks in other tax havens or other *paradis fiscal*. It was clear that the excess of Canadian tax that would be paid, over the foreign taxes paid in The Bahamas, amounted to \$32 million in 1985 and \$20 million in 1984.

The banks may have avoided paying that tax for other reasons, but they incurred a Canadian tax liability through

those foreign branches, just in The Bahamas, of \$32 million in 1985 and \$20 million in 1984. This does not count elsewhere.

We pointed out to the Finance Department that we could see a very natural incentive for the banks to transfer enough business to Montreal and Vancouver that they would in fact be able to extinguish Canadian tax liability on the business which now takes place in The Bahamas. However, business would still be sought and marketed abroad. Any decision about the business made in Canada now would continue to be made in Canada, but there would not be new jobs created to manage the particular business. It would be mainly just a bookkeeping entry. It was pointed out—and the banks and the Finance Department agreed—that foreign business in The Bahamas does not create any substantial amount of economic activity by those banks in The Bahamas. Their branches are just that. They have a handful of employees. There is no big deal about it and only a portion of that business might be moved back to Canada.

● (1220)

What will be get, Madam Speaker? We will not get any money for Canadian purposes. We will not get any additional liquidity to be used for investments in Chicoutimi or in the Fraser Valley or places like that. By definition the money which is put into banking centres has to be relent abroad. The rules laid down in this Bill are so narrow that the only money which will come into banking centres will be money in sovereign risks, money in the gilt of the gilt edge investments in which there is absolutely no risk at all and in which the margins tend to be extremely limited.

What will the tax loss be? As I say, \$32 million is a good estimate. What other estimates are there? We asked the Department of Finance and it was not able to tell us. What we have is a precedent. The Department of Finance was asked to estimate the cost of the scientific research tax credits back about five or six years ago. That program was brought in by the Liberals and perpetuated for a while by the Conservative Government. The department said the cost would be about \$200 million, but it wound up being some \$2.5 billion to \$3 billion in tax expenditures. Most people understand that concept now. Instead of sending a cheque to an individual, a tax expenditure allows that individual to save the equivalent amount through not paying tax that would otherwise be payable. The Finance Department underestimated by a factor of 10 times the loss on the SRTC's. The Department was unable to tell us what the tax loss would be, but we had an estimate of \$32 million.

Suppose that \$32 million was a correct estimate. Suppose we got 11 or maybe 25 jobs, which is what the bankers estimated. You are talking about \$1 million to \$3 million of lost tax revenue every year in order to create a handful of jobs in Vancouver and Montreal under a banking centre concept which, regrettably, will have no spin-off effect that I can imagine or that anyone else can imagine in those particular communities. If we wanted to create 11 jobs it would be a heck