

Income Tax Act

● (1810)

The scientific research tax credit incentive was sufficient, it was observed, to entice a foreign company to move its research facility to Canada. The research has since been successfully concluded and the company is in the planning stages of setting up a production facility at the same location. There are several other examples of Canadian companies which plan to set up production facilities as soon as the research projects have been completed.

It is quite clear that considerable good research took place as a result of this program. I asked a question in the Public Accounts Committee a year ago. I asked the representatives from the Department of National Revenue, the Department of Finance, and the Comptroller General's office what percentage of the spending or what percentage of the research conducted under this program was good and what percentage was bad. We all know that it is the abuses that get the attention. One individual decides to spend the money that has been raised ostensibly for research on buying a Ferrari, investing in real estate transactions or something like that, and it makes headlines right across the country. Are these headlines and this anecdotal evidence representative of all of the research that took place under the program? I asked the department officials, is this 10 per cent, 20 per cent, or 50 per cent? They could not tell me. Even today you cannot get a straight answer when you ask that particular question.

I think we can arrive at some kind of a conclusion if we look at the figures provided by the Deputy Minister of National Revenue in the Public Accounts Committee on March 11. He pointed out that the Part VIII tax that is anticipated to be uncollectable is something in the order of \$900 million. The total Part VIII tax liability is \$2.8 billion.

If you look at it in those terms, the uncollectable amount is approximately one-third of the total Part VIII tax liability. Part VIII tax liability, to try and translate that into understandable terms, is the amount of the tax credits that have been given by the Government for purposes of research and development. A tax credit, as those who are familiar with the Income Tax Act may know, reduces tax otherwise payable. When \$100 is spent on R and D with a 50 per cent tax credit, a 50 per cent tax credit reduces government revenue by \$50. When the tax credit is given to the investor under the scientific research tax credit, the Government is out of pocket by that \$50 until the research and development is actually performed, which then extinguishes the liability. The amount the Government is out of pocket initially, as I said earlier, is \$2.8 billion. Of that \$2.8 billion, some \$900 million is believed to be unrecoverable.

If we can conclude from that that two-thirds of the research that was done under this program is legitimate, it tells us that the abuses are, perhaps, less than may initially meet the eye. I do not know if one can conclude that two-thirds of the research will actually produce something of benefit for Canada, something of benefit for the company, or lead to a successful company, because by the very nature of it research is a hit and

miss operation. Some companies may conduct dozens of research programs, and only a few may lead to a successful invention or lead to a product which is marketable by the company. I felt it important to try and put this whole debate into a certain sense of perspective.

In its pre-budget submission to the Minister of Finance (Mr. Wilson) in December of 1985, the Canadian Advanced Technology Association, which represents a number of Canadian-owned and controlled high technology companies, made the point that considerable scientific research spending in Canada occurred under this program that would not otherwise have taken place. They stated it is clear, therefore, that markets are responsive to government incentives to encourage risk taking. While this program was seriously abused, the Canadian Advanced Technology Association says—we are not in any way trying to defend those abuses—the ability to flow through R and D tax benefits to individual investors did result, as I said earlier, in considerable scientific research spending in Canada that would not otherwise have taken place.

They went on to recommend that the Department of Finance officials examine the possibility of structuring a new flow-through mechanism for scientific research and development expenditures structured along the lines of the flow-through share arrangements currently in place in the mining industry. They point out in their pre-budget submission to the Minister of Finance that this would differ from the SRTC Program in several important ways. There would be clear risks to the investor. Second, shares would not be issued to the investor until R and D expenditures had actually taken place. Third, due diligence would be enforced on all the players. They offered to volunteer the resources of their association to work with the Department in assessing the merit of developing a new policy instrument along these lines.

Unfortunately, the Government did not respond to this request from the Canadian Advanced Technology Association in its last Budget. Our Party has taken the position that it is necessary to have this kind of a mechanism to provide financing for high risk research, for start-up companies which have difficulty raising research moneys and investment under the current tax incentives.

I would also like to mention that there is considerable concern in the high technology community that the abuses which occurred under the scientific research tax credit program are going to seriously damage the Government's new investment research tax credit, which was introduced in the Budget of last May, in which the Government stated its intention to broaden the definition of research and development. Revenue Canada issued a paper in which it undertook to consult respecting the preparation of guidelines on the subject of scientific research and development.

● (1820)

The Standing Committee on Research, Science and Technology had a meeting last week with the same Canadian