

is allowed to transfer its tax incentives to outside investors. We are talking about a company which does research and needs money to carry out its work a company which would normally be eligible for the scientific research tax credit but which cannot avail itself of the Income Tax Act provisions on research funding because it is not making any profit and does not pay corporate taxes.

The scientific research tax credit was a way to enable such a company to transfer its tax incentives or tax credits to outside investors like profitable businesses prepared to lend or invest money in the company. In turn these investors could claim the tax credit normally available to the company doing the research work.

This mechanism was first unveiled in the April 1983 Budget of Finance Minister Lalonde, and it was set up after lengthy consultations with the interested parties from whom this proposition originated in the first place. These were private sector interests, people doing research who claimed it was imperative to find a way to fund research projects.

● (1800)

[English]

We are all well aware of some of the abuses involving the scientific research tax credit which led to its eventual elimination. The Bill we are studying today, Bill C-109, would give the Government the power to collect advance payment of taxes questioned under certain court rulings recently. Therefore, our Party supports the legislation. It is intended to make one aspect of the Government's monitoring and collection system enforceable. However, we do not support the outright elimination of the SRTC as announced one year ago by the Minister of Finance (Mr. Wilson). We feel it should be maintained with appropriate controls. In spite of the abuses the SRTC was subjected to, its basic principle was valid.

As I mentioned earlier, the industry was highly supportive of the credit. Original estimates by the Department of Finance in the Budget of June, 1983, were that this tax credit would generate about \$100 million of additional expenditures on research and development. That forecast was proven wrong both because the program was more successful than expected, and because of the abuses mentioned. The safeguards initially designed by the Department of Finance against abuse were clearly inadequate. However, I would point out that the Conservative Party supported the SRTC when it was introduced. Indeed, the former Minister for Science and Technology sitting here this evening, now the Minister of Fisheries and Oceans (Mr. Siddon), was his Party's critic on science and technology at that time. He commended the initiative in the House on December 13, 1983. He even said the measure was inadequate. In retrospect it is amusing to look back on the comments he made at the time. For purposes of debate I would like to read—

Mr. Siddon: Read the whole thing.

Income Tax Act

Mr. Berger:—what the Minister said. I am not going to read his whole speech.

Mr. Siddon: Read the good parts.

Mr. Berger: I will read the relevant parts. At page 145 of *Hansard* of December 13, 1983, he said:

—when I deal with the specific increases in R and D tax credits, I will point out the tremendously inadequate level of support they represent to a very important sector of our economy.

He went on to say, as reported at page 147:

What the income tax amendment to the R and D tax credits does is to increase the incentive to do research in the private sector by something in the order of one one-hundredth of what is required. The amendment is only 1 per cent as powerful and significant as what is required to get the private sector really rolling along and doing much more research and development in the country.

I do not know if the order of magnitude was right, but certainly the thrust of his comments was right. Even with the SRTC and some of the good research it produced I submit we still have not found the answer to getting the private sector really rolling along and doing much more research and development in this country. Indeed, the committee concerned will be hearing tomorrow from Douglas Wright, the President of the University of Waterloo, who has some very serious concerns to raise about the subject of university research and the Government's proposals in the February Budget to provide matching grants for contributions by the private sector.

I would like to emphasize again that considerable good investment did occur as a result of the SRTC. I have articles here going back to 1983 and 1984 where it is pointed out that companies like Pratt & Whitney Canada obtained some \$165 million through this incentive. We are all well aware of the kind and quality of the products that company has produced, and the resulting economic benefits. The same is true of Mitel Corporation. That company has had some financial difficulties, but with the recent purchase by British Telecom it will hopefully be able to see its way past those difficulties. It raised money for research under the SRTC program as well.

In addition, I would like to refer to a recent meeting of the Standing Committee on Public Accounts which dealt with this question on March 11. The Deputy Minister of National Revenue gave a number of examples of qualifying research projects under this program. He could not name companies because of the confidential nature of the information under the Income Tax Act, but he mentioned some research being done on a computerized security system. He said that, if successful, this system will be substantially advanced over the systems available today. Potential buyers in both Canada and the United States have already expressed an interest. Another example he gave was the development of an interactive computer graphics technology to integrate the work of multidiscipline teams in the exploration area. The main purpose of the project was to increase productivity of such teams by 30 per cent and, if successful, the program had a potential world-wide market. Another example concerned the development of new products.