THE SENATE

Wednesday December 21, 1983

The Senate met at 2 p.m., the Speaker in the Chair.

Prayers.

INCOME TAX

REPORT OF BANKING, TRADE AND COMMERCE COMMITTEE ON SUBJECT MATTER OF BILL C-2

Hon. A. Irvine Barrow: Honourable senators, I have an oral report to make on behalf of the Standing Senate Committee on Banking, Trade and Commerce.

On April 19, 1983, the Honourable Marc Lalonde, Minister of Finance, delivered in the House of Commons a budget which forms the basis of the matters before the committee. By Order of Reference of December 19, 1983, the Standing Senate Committee on Banking, Trade and Commerce was authorized to examine the subject matter of Bill C-2, intituled: "An Act to amend the statute law relating to income tax and to make related amendments to the Canada Pension Plan and the Unemployment Insurance Act, 1971," in advance of the said bill coming before the Senate, or any matters relating thereto.

In accordance with the Order of Reference, your committee has considered the subject matter of Bill C-2. In connection with such consideration, the committee engaged the services of Mr. Helmut Birk, C.A., and retained as its counsel, Mr. Thomas S. Gillespie, and has heard evidence from Mr. R. A. Short, General Director, Tax Policy and Legislation Branch, and other officials from the Department of Finance.

The bill contains measures designed to stimulate the recovery of Canada's economy and to restore the economic capacity to generate new jobs. These measures are designed to encourage and enable Canadian enterprises to undertake new investment more quickly. Some of the more important features of the bill are as follows:

Business losses can now be carried back one year and forward five years to reduce income subject to tax. Under clause 55, at page 98 and forward, losses are to be carried back three years and forward seven years. For farmers and fishermen, the carry-forward period will be 10 years rather than seven years. Taxpayers will be allowed a three-year carry-back of capital losses. Transitional rules are provided allowing for the gradual introduction of these measures.

Investment tax credit: A number of temporary and permanent changes to the investment tax credit provisions have been introduced to support investment. The investment tax credit is now earned at the general rate of 7 per cent; 10 per cent in pre-designated areas; 20 per cent in the Atlantic and Gaspé regions; and 50 per cent for certain manufacturing investments in special DREE regions.

It is proposed under subclause 73(4) that the credit be extended at a rate of 7 per cent to prescribed new heavy construction equipment. Under the present rules, the investment tax credit can only be claimed to the extent of $15,000 plus one-half of federal tax in excess of $15,000. Unused credits could be carried forward for five years.

The bill proposes, in subclause 73(2), that taxpayers be able to use their investment tax credit to reduce, without limitation, their federal tax payable. Credits will be allowed to be carried back for three years and forward for seven years.

Furthermore, under clause 74, the investment tax credit earned on investments made between April 19, 1983, and May 1, 1986, will be refunded if they cannot be used. For small business corporations and unincorporated businesses, the refund will be 40 per cent of the unused credit in the year; for other businesses, it will be 20 per cent.

Share purchase tax credit: This new credit, to be provided for in the new section 127, is designed to assist corporations in raising equity to finance new investment projects. This measure will permit corporations to use tax credits earned on new investments to attract purchasers of new common shares issued between July 1, 1983 and the end of 1986. Private and public corporations will be allowed to issue shares which will entitle the first purchasers thereof to a tax credit of up to 25 per cent of the issue price paid. Certain tax exempt entities such as pension plans, which would otherwise not be able to make use of the credit, will have the share credit refunded to them in cash. The credit will reduce the tax cost of the shares for the purpose of computing subsequent capital gains and losses.

Research and development: The tax incentives presently in the act are:

(1) One hundred per cent deduction for current and capital expenditures,

(2) Fifty per cent additional deduction on same expenditures in excess of the average for the three prior years, and

(3) A tax credit of 10 per cent, 20 per cent for the Atlantic provinces and Gaspé regions, and 25 per cent for small business corporations.

The bill proposes that the 50 per cent additional allowance be eliminated and that the tax credit be increased by 10 per cent from the current level of all R & D performers. The credit will be eligible for the longer three-year carry-back and seven-year carry-forward, and for the temporary measure that refunds a part of the credit to businesses with no tax otherwise payable.

Corporations will be entitled to renounce unused credits and deductions by permitting outside investors a tax credit. This