

Income Tax Act

benefit some particularly narrow class of taxpayers, and whether they are being given some form of retroactive bonus in this regard because they have made specific representations to the minister. I would like as much detail as possible in this regard.

Mr. Gordon: Mr. Chairman, I think the hon. member has raised two questions. First, why go back to 1962, and second there is the question of whether expenditures made by a business in Canada for research outside Canada should be allowed as a deduction for income tax purposes. When the amendment was introduced it applied to the year 1962 and subsequent years. It provided that if research expenditures were made in Canada, the taxpayer could claim 150 per cent of those expenditures in computing his taxable income. I do not know what went on in the minds of the then ministers, but I am quite sure from what I have heard from my hon. friend for Edmonton West and my hon. friend for Digby-Annapolis-Kings over the past year that there was no thought of using the carrot and the stick approach; that the only approach my hon. friends would have indulged in was the carrot approach and there was no idea at all of penalizing people who for one reason or another were making expenditures in another country for research which they felt was of very great value to their own businesses.

I suggest that inadvertently the wording of the section was such as to preclude altogether any deduction of any kind for expenditures on research except those made in Canada. Have I made myself clear to the hon. member?

Mr. Lambert: Yes.

Mr. Gordon: Since the amendment was passed by the then government Canadian businesses have had the advantage of a 150 per cent deduction for any expenditures made in Canada, but because—and I understand it was by inadvertence—of the wording of the amendment, since 1962 they have been penalized or have not obtained any benefit in computing their taxable income for expenditures on research in other countries, some of which research they have been carrying on for many, many years. Representations to this effect have been made, to my knowledge not by any particular taxpayer, not by any particular class of taxpayer, but by people like the tax foundation and the joint committee of accountants and lawyers, who have been saying that they think there is an anomaly here; they think there is a mistake here; they think something was done by inadvertence that was not intended. I do not know if that is true, but they think there was no intention

[Mr. Lambert.]

to wield a big stick; that there was certainly no intention on the part of hon. gentlemen then in the government to penalize these firms for carrying on in the way they had always carried on. In fact, they think a mistake was made.

Therefore, in assessing these representations the present government came to the conclusion that the incentive introduced in 1962 of granting a 150 per cent deduction for any research expenditures made in Canada, over a certain base, should stand, but that companies which for one reason or another get very valuable research assistance in other countries should not be penalized. In some cases it would be impossible to get the same facilities in Canada. I am sure there are examples of where these arrangements have been entered into under contract, and in many cases Canadian industry benefits to a very considerable extent from the access that it has to research in the United States, Great Britain, European countries, and so on, and is prepared to pay for them.

It is not suggested that these payments should be allowed as a deduction to the extent of 150 per cent. It is suggested that, like other expenditures that are laid out for the purpose of earning income, they should be allowed to the extent of the amounts paid; that is to say, there should be no incentive, but it should be just to the extent of the amounts paid. If we do not do this, what we would be doing in effect would be saying, "If you carry out your research in Canada, fine; you will get a bonus to the extent of a 150 per cent write-off. But if you cannot, and you take advantage of research facilities in other countries, then, while we will allow you any other type of expense that is necessary for the purpose of earning income, we will not allow you this particular item of expense". Those who have made representations, the lawyers, accountants and professional people of that kind, thought this was an anomaly; they thought it was a mistake. They convinced the government that it should be corrected or, if it was not a mistake, that it should be changed. I think it was perhaps done inadvertently.

When the hon. member says, why do we go back to 1962, the answer is very simple. The amendment applied to the years 1962 and thereafter. Those years have not yet been finally assessed, and it was thought that the fair thing to do would be to go back to the date when the change was made in the first place.

Mr. Lambert: Mr. Chairman, I realize what the minister is trying to get at but I am not too sure that he is altogether correct in his assessment of the situation. I would ask, how