Paper proposes that tax reduction through the use of R&D credits be limited to one-half of a taxpayer's federal tax payable in a taxation year.

6.36 The revenues expected from this proposal are fairly low. Witnesses appearing before the Committee argued that there may be no gains at all, because the proposal will have the effect of discouraging R&D activities or diverting R&D spending to foreign jurisdictions. It is certainly the case that the proposal favours firms doing less R&D over those engaging more intensively in R&D efforts, since the former will be better able to deduct the full amount of credits earned within the limit of 50 percent of taxes payable. In the Committee's view this is contrary to the long-run interest of the economy and contrary to stated government policy.

6.37 **12. We recommend that the R&D investment tax credit not be limited to 50 percent of taxes payable.**

6.38 The White Paper proposes that land developers be required to capitalize the carrying cost with respect to vacant land held for use in the course of business and that they capitalize construction-period "soft costs".

6.39 According to evidence we received, it is inappropriate to capitalize interest and other carrying costs of vacant land since land represents inventory to developers and builders. If carrying costs are capitalized to vacant land, they cannot be recovered until the land is sold because land is not eligible for depreciation. Indeed, land may be held for long periods of time pending its sale or subsequent development and the carrying costs should remain deductible as do inventory carrying costs in manufacturing or retailing.

6.40 Both the Canadian Institute of Public Real Estate Companies and the Canadian Home Builders' Association noted that the loss of current deductibility for land carrying costs would likely be more prejudicial to small homebuilders who, in certain cases, would be required to pay income tax for years in which they make no cash profit.

6.41 With respect to the capitalization of soft costs, the Canadian Home Builders' Association contended that these should remain deductible in the year incurred. However, the Canadian Institute of Public Real Estate Companies supported the capitalization of soft costs.

6.42 In the Committee's view, construction-period soft costs should be capitalized since they represent expenditures which give rise to definite future