

Income Tax Act

Islands (Mr. Manly) be dropped to the bottom of the order of precedence pursuant to a ruling made earlier on these matters.

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INCOME TAX ACT

MEASURE TO AMEND

The Hon. Ray Hnatyshyn (for the Minister of Finance) moved that Bill C-109, an Act to amend the Income Tax Act, be read the second time and referred to a legislative committee.

Mr. Pierre H. Vincent (Parliamentary Secretary to Minister of Finance): Mr. Speaker, I am pleased today to speak on second reading of Bill C-109, an Act to amend the Income Tax Act. Bill C-109 relates to the controversial scientific research tax credit program introduced by the previous Government. The scientific research tax credit was designed to allow corporations to transfer the benefit of tax deductions and credits to outside investors. This tax was equal to the SRTCs sold and is refundable as the corporation actually performs research and development. This tax is provided for in Part VIII of the Income Tax Act and is payable 30 days after the end of the month in which the SRTCs were sold.

The purpose of Part VIII tax is to protect the Government from corporations which would drain the public purse without actually doing any research and development. I agree with the purpose behind these provisions. I would inform the House, however, that this intention has been undermined by recent and conflicting case law. Notwithstanding that Part VIII tax is payable within 30 days after the end of the month in which an SRTC is issued, one judicial authority has held that it cannot be collected as it becomes due but, rather, can be collected only after the corporation has filed its income tax return for the year in which the SRTC was issued. This could be up to six months after the corporation's year end.

[Translation]

Mr. Speaker, at this point I do not intend to recall the ways in which this program was abused, which led to the program being abolished in the May Budget. However, I may remind the House that the transitional relief provisions that followed the program's abolition allowed for issuing a certain amount of scientific research tax credits until the end of 1985.

Mr. Speaker, it is therefore essential that Bill C-109 be adopted quickly, to avoid a situation where the Government would have to refund taxes collected under Part VIII of the Income Tax Act, which might prove difficult to collect later on.

[English]

In the absence of these amendments \$225 million of Part VIII tax previously collected as the result of 576 audits, mainly by legal action, seizing assets or accepting security,

may have to be refunded by Revenue Canada. In addition, Revenue Canada cannot proceed with the collection of 866 additional assessments now being monitored, nor can assessments be issued for approximately 100 SRTC designations received since the court decision. These amendments are not controversial, nor do they change the intended application of the Part VIII tax as approved by this House.

[Translation]

These amendments should therefore receive the support of the House, since they are in line with the objectives we had in mind when the Part VIII tax was adopted by this House.

[English]

Bill C-109 also excludes the Part VIII tax from the taxes in dispute legislation contained in the Income Tax Act. The taxes in dispute legislation was introduced as one of the first acts of the Government in order to protect taxpayers who have legitimate disputes with Revenue Canada as to the amount of regular income tax owing. This is not appropriate in the case of the Part VIII tax however, as this tax merely offsets credits already issued by the corporation, which credits the Government is bound to honour.

Bill C-109 ensures that corporations cannot delay the recovery of Part VIII tax by the simple act of filing a notice of objection to an assessment. It should be noted, however, that Revenue Canada's practice is to collect Part VIII tax during the course of a corporation's taxation year only when it has reason to believe that the SRTC funds will not be expended on research and development.

The amendments proposed in Bill C-109 are not retroactive but are effective for assessments made after March 28, 1986, the day on which these proposals were announced. Nevertheless, in cases where Government funds are at risk, new assessments can be issued and Part VIII taxes collected as soon as is appropriate in the circumstances.

I need not dwell on the abuses that have been reported on this program. It is for this reason that the SRTC was discontinued in the May 1985 Budget. Nevertheless, under transitional relief provisions it was possible for some SRTCs to have been issued up to the end of 1985. It is imperative that Bill C-109 be implemented quickly in order that the Government not find itself in a position of having to refund taxes collected under Part VIII which may be in danger of not being subsequently collectable.

It is with anticipation, therefore, that I seek the co-operation of all my colleagues in the House in the speedy passage of Bill C-109.

[Translation]

Mr. David Berger (Laurier): Mr. Speaker, the scientific research tax credit is a mechanism used by a company which carries out research in Canada and which may not have to pay taxes because it is not a profit-making business—for instance a company just beginning to develop a new product or a new technology—so this tax credit is a mechanism through which it