# Supplementary Information

## Research and Development Costs

There has been growing concern in recent months about the adequacy of scientific research and development activity in the Canadian industrial sector, given the importance of R&D as a contributor to long-run economic performance.

At the conclusion of the federal-provincial Conference of First Ministers in February a statement was issued announcing, among other things, that joint steps would be taken to improve the tax incentives or credits to private industry for R&D activities.

Since 1961, the Income Tax Act has allowed a 100 per cent write-off of current and capital R&D expenditures in the year they are made. This fast write-off was supplemented last year by an investment tax credit on current and capital R&D outlays varying by region from 5 to 10 per cent.

As an added stimulus, it is now proposed to introduce for a 10-year period beginning in 1978 a special allowance of 50 per cent of the increase in R&D activity. The allowance, which is deductible in computing income, would apply to the amount by which a company's R&D expenditures in a year exceed the company's average R&D expenditures over the previous three-year period. The effect would be to reduce a company's after-tax cost of each additional dollar spent on R&D to as low as 20 cents.

Because of the incremental nature of the new incentive, its impact on tax revenues will depend upon the extent to which industry responds. However, it is estimated that in the initial years the reduction in federal revenue will be about $50 million a year. Provincial tax revenue would also be reduced in those provinces that have tax collection agreements with Ottawa and those outside the collection agreement who decide to adopt these new provisions.

## Energy

Additional tax incentives are being introduced to stimulate the production of energy, in the immediate as well as long term, particularly by new methods that increase the rate of recovery from known oil deposits. Two changes are made in the depletion allowance.