

Income Tax Act

On or about February 14, 1986	Mr. T.M. McGee	Technique being developed by Thalassic Data
March 20, 1986	Mr. T.M. McGee	Details of a meeting that took place between Ontario Ministry of Environment and Thalassic Data

2. No. However, the Department of Environment, with the assistance of the Geological Survey of Canada, is undertaking a professional assessment of the Thalassic Data information.

3. Yes, by telephone. (a) Mr. K. Shikaze, Regional Director, Environmental Protection, Conservation and Protection, Department of Environment. (b) None. (c) N/A. (d) N/A.

[English]

Mr. Lewis: Mr. Speaker, I ask that the remaining questions be allowed to stand.

Mr. Speaker: The question enumerated by the Parliamentary Secretary has been answered. Shall the remaining questions stand?

Some Hon. Members: Agreed.

GOVERNMENT ORDERS

[English]

INCOME TAX ACT

MEASURE TO AMEND

The House resumed from Wednesday, May 21, consideration of the motion of Mrs. McDougall that Bill C-109, an Act to amend the Income Tax Act, be read a second time and referred to a legislative committee.

Mr. Stan J. Hovdebo (Prince Albert): Mr. Speaker, I take this opportunity to say a few words about the great Liberal research scam. In January, 1984 the then Liberal Government made amendments to the Income Tax Act, providing a scientific research and development tax credit program. The program was introduced to make tax incentives of more immediate value to companies performing research and development and to facilitate the financing of research and development. The program was specifically designed in such a way that investors were able to realize quick no risk profits by a procedure known as the "quick flip". This caused a significant overrun in the cost of the program.

I agree the Bill needs to be put in place and it should be supported, and that it should not take too long to pass through the House, but we need to have learned a lesson from the program. This scientific research tax credit program is only part of a \$30 billion to \$50 billion tax expenditure system being delivered through the tax system. The program is an example of the problems of tax expenditure in general.

The Auditor General in his statement to the Standing Committee on Public Accounts on May 30 suggested that this program was something the Government should be looking at

and that there was a great possibility for misuse of taxpayers' money by the particular process of tax expenditures. It is the method by which the corporations in most cases, individuals in some cases, are given tax relief. This is money which is not collected by the Department of National Revenue but left with the taxpayer without a great deal of accountability.

● (1110)

Under these programs you get relief from taxes and can spend money which you never have to account for. This is another way of passing out funds to corporations. Normally if an individual or organization receives funds from the Government they are expected to account for how those funds are spent. If they are spent incorrectly, they would be asked to make restitution for the expenditures. Under the tax expenditure program, that is not necessary. When you get a grant from the Government through a tax credit there is no way the Government can check on how that money is expended. In fact, the Income Tax Act protects the spender from being publicly investigated.

In his 1984 report the Auditor General pointed out that the scientific research tax credit program had been implemented without adequate safeguards over public money. I will spend a few minutes explaining the history of this.

In April of 1983 the Hon. Marc Lalonde, then the Minister of Finance, indicated that the cost of this program would be approximately \$100 million in the first year and probably an equal amount in the second year. That was to be an expenditure through foregone taxes rather than actual grants paid by the Government. That is what makes this particular type of expenditure so insidious. It does not appear as an item in the Estimates. It does not appear as an expenditure of the Government. It is foregone income which the people of Canada are passing out to corporations and individuals which take advantage of it.

We have been told that foregone taxes to date amount to \$2.8 billion. The \$100 million program which the Minister of Finance announced in 1983 is already up to \$2.8 billion. In addition, there is the cost of administering the program. The Minister of State for Finance (Mrs. McDougall) told the Public Accounts Committee recently that the cost of administering, investigating, and taking the necessary actions to collect some of the \$2.8 billion would be at least an additional \$12 million.

There are some very interesting facts with regard to this particular grant. For example, 1,810 corporations filed designations for these tax credits. Of these, 1,204 were involved in the "quick flip", a procedure by which they could get the money very quickly without actually expending any funds for research. Those corporations "flipped" more than \$5.6 billion. In the process of this "flip" they pocketed \$2.2 billion. In other words, of that \$2.8 billion of funds foregone by the people of Canada, \$2.2 billion was retained by the corporations which had committed themselves to do research. That left a shortfall of \$3.4 billion. In other words, the