

*Income Tax*

rule, that it was more appropriate that the soft costs be capitalized and carried over a number of years.

**Miss Carney:** Mr. Chairman, I followed the rationale, without necessarily accepting it, with regard to the particular soft costs which affected the MURBs. I know that in many urban areas, and my own riding is an example, the result of that provision has been that there are still large holes in the ground. Projects were not completed and cannot be completed even with the changes which have been introduced. However, we are also concerned with the effect of this measure on large capital projects.

For instance, we have been advised that major construction projects, such as the construction of a large pulp and paper mill or a hydro dam, projects of that magnitude, the capitalization of soft costs will be a major cost item. Since there are other measures in the various budgets, such as the measures relating to the CCAs, which have adversely affected the construction industry, could he explain how this measure will impact on the cost structure of large capital projects?

**Mr. Blenkarn:** It increases the price by 25 per cent. That's how it will impact.

**Mr. Cosgrove:** Mr. Chairman, some of the representations or examples given by the Hon. Member involve public projects. Hydro projects would not be private sector developments. Therefore, I would submit that the Section is really not pertinent insofar as—

**Mr. Blenkarn:** The tar sands plant might be an example.

**Mr. Cosgrove:** —they are concerned. The Hon. Member has made the statement that projects have been stopped because of this provision. We would be happy to hear any specific examples of which the Hon. Member is aware, because our information is that that is not the case, and that the drop, the remarkable reduction in interest rates over the last half year, has permitted construction to carry on in a number of areas.

We have been told by the Edmonton Construction Association, in reference to large firms, and the Hon. Member was referring to large projects, not very small ones, that they have the financial ability to move their accounting procedures to take into account the capitalization of the interest, rather than the reduction which was previously available under the designation of soft costs.

**Miss Carney:** Mr. Chairman, the Minister raises a number of points in that answer. I will try to deal with them one at a time. His suggestion that the provision relating to soft costs on the MURBs did not have adverse results and did not result in the cancellation of projects is truly absurd, since these holes in the ground and the impact of those measures were widely publicized. There were pictures in every newspaper of blocks of holes in the ground filled with water which had to be fenced off. There were cities which had to pass bylaws to force people to put up protective fences. For the Minister to suggest that this impact did not occur indicates that he and his officials are

wildly out of touch with reality when they propose such measures.

However, specifically in relation to the construction of private projects, "private" meaning pulp and paper mills, mines, et cetera, which are not financed with public money, does the Minister agree that capitalizing the soft costs for these private projects is more expensive than expensing them out?

**Mr. Cosgrove:** Mr. Chairman, of course the theory behind the capitalization of the interest is that it is interest on an investment which is an improvement to a capital project. The pulp mill example used by the Hon. Member is an enhancement of a capital asset, and the Government has taken the position that the reduction in interest rate—

**Mr. Blenkarn:** The interest isn't deductible.

**Mr. Cosgrove:** —is really a method of contributing toward the expansion, the enlargement, of the capital assets of the pulp company. Therefore, the whole transaction, the whole project, results in a capital feature which is enjoyed by the company over a period of years. For that reason, the Government felt that all of the cost, including interest charged on financing of that project, is properly set off against the asset resulting from the project development by a particular company.

Returning to the Hon. Member's first comments, I agree with her. Yes, there were some projects which were stopped within days of the initial announcement of the budget in November, but—

**Mr. Blenkarn:** Hours.

**Mr. Cosgrove:** —because of the amendments, that is, the provision that if the projects were commenced by the end of the year, which was extended to April, and finally, with the indication that there had to be evidence of intention, to proceed, the result was that people went back to work on projects. I believe that was the reference of the Hon. Member when she mentioned pictures in the paper. That probably would have occurred in November or December of 1981.

Yes, I know that there are some projects which have not proceeded, particularly in the residential construction area. Again, if the Hon. Member checks, I think she will find that, by and large, the complaints arose as a result of the introduction of this Section in relation to large residential projects. The Hon. Member must remember that vacancy rates for these large condominiums or rental projects in many of the major metropolitan areas have dramatically changed in the last nine months. As a matter of fact, I believe the Hon. Member for Calgary South indicated this morning that in his city the vacancy rates had changed in that period from less than 1 per cent to somewhere around 12 per cent.

Obviously, people are motivated to proceed with some of these projects based on whether they can market their product, whether they can put people in these projects and whether they will derive any income. Similarly I would say, insofar as mines