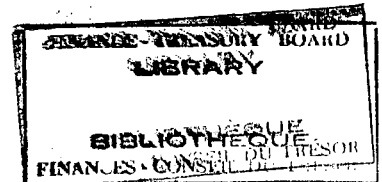


Budget

Notices
of Ways and Means
Motions

Monday, May 6, 1974





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Budget

Notices of Ways and Means Motions

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NOTICE OF WAYS AND MEANS MOTION

TO AMEND

THE INCOME TAX ACT

That it is expedient to amend the Income Tax Act and to provide among other things:

Deduction from tax

(1) That for the 1974 and subsequent taxation years, the amount to be deducted, by virtue of subsection 120(3.1) of the said Act, from the tax otherwise payable under Part I of that Act by an individual for a year shall be an amount equal to the greater of

(a) \$150, and

(b) 5% of the tax otherwise payable under that Part by the individual for the year, or \$500, whichever is the lesser.

Deduction for interest income

(2) That for the 1974 and subsequent taxation years,

(a) for the purpose of computing the taxable income for a taxation year of an individual other than a trust that is not a trust described in paragraph 108(1)(i) of the said Act, there may be deducted from his income for the year an amount equal to the lesser of:

(i) \$1,000, and

(ii) the taxpayer's interest income for the year minus the amount, if any, deducted by him in computing his income for the year by virtue of paragraph 20(1)(c) of that Act;

(b) for the purposes of this paragraph, interest income shall not include:

- (i) interest received from a source outside Canada;
 - (ii) the interest element of an annuity described in paragraph 61(4)(b) of the said Act;
 - (iii) the interest element of an annuity provided for under a registered retirement savings plan;
 - (iv) the interest element of an annuity provided for under a deferred profit sharing plan;
 - (v) the interest element of any payment received under a registered pension fund or plan;
 - (vi) royalties;
 - (vii) any amount that is declared to be exempt from income tax pursuant to this Act;
 - (viii) any amount included in computing the income of the taxpayer by virtue of any of subsections 135(7), 137(5) or 148(1) of the said Act;
 - (ix) interest received for a loan made by the taxpayer to a person with whom he does not deal at arm's length; and
 - (x) interest received by a person who is a member of a partnership from the partnership as a result of a loan made by him to the partnership; and
- (c) where by virtue of any of subsection 56(4) or section 74 or 75 of the said Act, there is included in computing a taxpayer's income for a taxation year interest received by some other person, for the purposes of this paragraph, the interest shall be deemed to have been received by the taxpayer.

Blind persons and
persons confined
to bed or wheelchair

- (3) That for the 1973 and subsequent taxation years, subparagraph 110(1)(e)(i) of the said Act shall be repealed and a rule substituted therefor so that the subparagraph shall apply to a taxpayer who was totally blind at any time in the year or was, throughout any twelve month period ending in the year, necessarily confined for a substantial period of time each day, by reason of illness, injury or affliction, to a bed or wheelchair.

Registered home
ownership
savings plan

- (4) That for the 1974 and subsequent taxation years, rules shall be provided in the said Act for the registration and taxation of a home ownership savings plan (the "plan") so that:
- (a) the Minister shall not in a year accept for registration for the purposes of the said Act any plan unless, in his opinion, it complies with the following conditions:
 - (i) the plan does not provide for payment of any benefit under or out of the plan except by way of a single payment to the beneficiary for the purchase of his owner-occupied home or by way of a refund pursuant to clause (f)(i) hereof of the excess amount contributed by the beneficiary together with any interest, profits or gains attributable thereto;
 - (ii) the plan includes a provision stipulating that no payment thereunder is capable either in whole or in part of surrender or assignment;
 - (iii) the beneficiary and the trust established under the plan are resident in Canada;
 - (iv) the beneficiary has never previously been a beneficiary under a registered home ownership savings plan;

- (v) the beneficiary does not own, whether jointly with another person or otherwise, real property in Canada, any portion of which was used in the year as a dwelling place by an individual;
 - (vi) the beneficiary does not have an interest in a partnership that owns, whether jointly or otherwise, real property in Canada, any portion of which was used in the year as a dwelling place by an individual; and
 - (vii) the plan in all other respects complies with the regulations, if any, of the Governor in Council made on the recommendation of the Minister of Finance;
- (b) no tax is payable under Part I of the said Act by a trust on the taxable income of the trust for a taxation year if, throughout the period in the year during which the trust was in existence, the trust was governed by a registered home ownership savings plan except that if the trust has carried on any business or businesses in the year, tax is payable under the said Part by the trust on the amount that its taxable income for the year would be if it had no incomes or losses from sources other than from that business or those businesses;
- (c) there may be deducted in computing the income for a taxation year of a taxpayer who is a beneficiary under a registered home ownership savings plan or becomes, within 60 days after the end of the taxation year, a beneficiary thereunder, the amount of any contribution paid by the taxpayer under the plan during the taxation year or within 60 days after the end of the taxation year (to the extent that it was not deducted in

computing his income for a previous taxation year), not exceeding the lesser of

- (a) \$1,000.00, and
- (b) \$10,000.00 minus the aggregate of contributions made by him under the plan in previous taxation years;
- (d) no amount may be deducted by a taxpayer under subparagraph (c) hereof for a taxation year in which
 - (i) he had an owner-occupied home as defined in clause (m)(vi) hereof if that clause were read without reference to the phrase "or within 60 days after the end of the year" where it appears therein;
 - (ii) he owned, whether jointly with another person or otherwise, real property in Canada, any portion of which was used in the year as a dwelling place by an individual; or
 - (iii) he had an interest in a partnership that owned, whether jointly or otherwise, real property in Canada, any portion of which was used in the year as a dwelling place by an individual;
- (e) there shall be included in computing the income of a taxpayer for a taxation year, all amounts received by him in the year from a trust governed by a registered home ownership savings plan except to the extent that such amounts are used by the taxpayer in the year or within 60 days after the end of the year to purchase
 - (i) his owner-occupied home, or
 - (ii) home furnishings for

(A) the owner-occupied home referred to in clause (i) hereof, or

(B) the owner-occupied home of his spouse;

(f) where

(i) a taxpayer makes a contribution for a taxation year that exceeds the amount deductible under subparagraph (c) hereof (if subparagraph (d) hereof had no application in determining the amount deductible thereunder) and the excess, including any interest, profits or gains attributable thereto, has not been refunded to the taxpayer by the trustee of a trust governed by a registered home ownership savings plan within 120 days after the end of the year, or

(ii) at any time the Minister is satisfied that a registered home ownership savings plan failed to comply with the requirements of subparagraph (a) hereof at the time it was registered,

the Minister may revoke its registration by notifying the trustee and the beneficiary, by registered mail, that he has revoked the plan;

(g) where at any time the Minister revokes the registration of a registered home ownership savings plan pursuant to subparagraph (f) hereof, the beneficiary shall be deemed at that time to have received from a trust governed by a registered home ownership savings plan an amount equal to the fair market value at that time of all the assets of the trust and notwithstanding subparagraph (e) hereof, no amount may be deducted in respect of any amounts used to purchase an owner-occupied home or home furnishings;

(h) in the event of the death of a beneficiary, an amount equal to the fair market value at that time of all the assets of a trust governed by a registered home ownership savings plan of which he was the beneficiary shall be deemed to have been received by him immediately before his death;

(i) for the purposes of paragraph 20(1)(c) of the said Act, any amount received by a taxpayer from a registered home ownership savings plan or such a plan whose registration has been revoked by the Minister pursuant to subparagraph (f) hereof shall be deemed to be exempt income;

(j) where in a taxation year a trust governed by a registered home ownership savings plan

(i) acquires a non-qualified investment, or

(ii) uses or permits to be used a property of the trust as security for a loan,

the cost to the trust of the non-qualified investment or the fair market value, at the time the property is used as security, of the property so used, as the case may be, shall be included in computing the income for the year of the taxpayer who is the beneficiary under the plan;

(k) where in a taxation year a trust governed by a registered home ownership savings plan disposes of a non-qualified investment, the cost of which was included by virtue of subparagraph (j) hereof in computing the income of the taxpayer who is the beneficiary under the plan, there may be deducted in computing the income of the taxpayer for the taxation year, an amount equal to the lesser of

- (i) the cost so included in computing the taxpayer's income, and
 - (ii) the proceeds of disposition of the non-qualified investment;
- (1) where in a taxation year a loan, for which a trust governed by a registered home ownership savings plan has used or permitted to be used trust property as security, ceases to be extant, and the fair market value of the property so used was included by virtue of subparagraph (j) hereof in computing the income of the taxpayer who is the beneficiary under the plan, there may be deducted, in computing the income of the taxpayer for the taxation year, an amount equal to the amount, if any, remaining when
- (i) the net loss (exclusive of payments by the trust as or on account of interest) sustained by the trust in consequence of its using or permitting to be used the property as security for the loan and not as a result of a change in the fair market value of the property is deducted from
 - (ii) the amount so included in computing the income of the taxpayer in consequence of the trust's using or permitting to be used the property as security for the loan;
- (m) in this paragraph,
- (i) "beneficiary" means an individual (other than a trust), 18 years of age or over, who has entered into a home ownership savings plan;
 - (ii) "contribution" means any periodic or other amount paid by an individual under a home ownership savings plan as a payment referred to in

clause (iv) hereof for the purpose stated in that clause;

- (iii) "home furnishings" means such property used to furnish a home as may be prescribed by regulation;
- (iv) "home ownership savings plan" means an arrangement under which payment is made by an individual in trust to a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as trustee, of any periodic or other amount as a payment under the trust to be used, invested or otherwise applied by that corporation resident in Canada, for the purpose of providing to a beneficiary under the arrangement, an amount to be used for the purchase of an owner-occupied home;
- (v) "non-qualified investment" in relation to a trust governed by a registered home ownership savings plan means property acquired by the trust that is not a qualified investment for such trust;
- (vi) "owner-occupied home" of a taxpayer for a taxation year means a housing unit or a share of the capital stock of a co-operative housing corporation owned, whether jointly with another person or otherwise, in the year or within 60 days after the end of the year by the taxpayer, if the housing unit was, or if the share was acquired for the sole purpose of acquiring the right to inhabit a housing unit owned by the corporation that was, inhabited by the taxpayer at any time in the year or within 60 days after the end of the year and was situated in Canada;

- (vii) "qualified investment" for a trust governed by a registered home ownership savings plan means
 - (A) an investment that would be described in any of subparagraphs (i) to (ix) (except subparagraphs (iii), (vi) and (viii)) of paragraph 204(e) of the said Act if the references therein to a trust were read as references to the trust governed by the registered home ownership savings plan,
 - (B) a bond, debenture, note or similar obligation of a corporation the shares of which are listed on a prescribed stock exchange in Canada,
 - (C) a mortgage or interest therein, secured by real property situated in Canada, other than a mortgage in respect of which the mortgagor is the beneficiary or a person with whom the beneficiary does not deal at arm's length, and
 - (D) such other investments as may be prescribed by regulation of the Governor in Council made on the recommendation of the Minister of Finance; and
- (viii) "registered home ownership savings plan" means a home ownership savings plan accepted by the Minister for registration for the purpose of the said Act as complying with the requirements of this paragraph;
- (n) the amount included in computing the taxpayer's income for the year by virtue of subparagraph (e) hereof shall be included in the amounts

referred to in subsection 61(2) of the said Act;

- (o) Part XI of that Act shall apply in respect of a trust governed by a registered home ownership savings plan;
 - (p) where, at the end of any month after 1973, a trust governed by a registered home ownership savings plan holds property that is not a qualified investment, the trust shall, in respect of that month, pay a tax under part XI.1 of the said Act equal to 1% of the cost to it of all such property held by it at that time other than property, the cost of acquisition of which was included under subparagraph (j) hereof in computing the income of the taxpayer who is the beneficiary under the plan;
 - (q) a payment from a trust governed by a registered home ownership savings plan, or any amount deemed by subparagraph (g) hereof to have been received by a taxpayer shall, where the taxpayer is a non-resident, be subject to tax under Part XIII of the said Act, and
 - (r) that part of any amount referred to in subparagraph (e) hereof required to be included in computing the taxpayer's income for a year shall be eligible for the rule in paragraph 60(j) of the said Act.
- (5) That for the 1974 and subsequent taxation years, the amount of small business deduction that a Canadian-controlled private corporation may claim under section 125 of the said Act shall be increased by
- (a) changing the reference to "\$50,000" in paragraphs 125(2)(a), (3)(a) and (4)(a) of the said Act to "\$100,000", and

Small business
deduction:
increase in
limits

- (b) changing the reference to "\$400,000" in paragraphs 125(2)(b), (3)(a) and (4)(b) of the said Act to "\$500,000".

Corporate surtax

- (6) That where a portion of a corporation's taxation year is after April 1974 and before May 1975, there shall be added to the tax otherwise payable under Part I of the said Act for the year by the corporation (other than a corporation that was an investment corporation, a mortgage investment corporation, a mutual fund corporation or a non-resident-owned investment corporation throughout the taxation year or a corporation for which any amount was deducted from its tax payable under the said Part for the year by virtue of section 125 of that Act) an amount equal to that proportion of 10% of the amount, if any, by which

- (a) the tax otherwise payable under the said Part by the corporation for the year (determined with reference to all other paragraphs of this Motion, but without reference to this paragraph or section 126 of the said Act)

exceeds the aggregate of

- (b) 30% of the corporation's Canadian manufacturing and processing profits for the year, within the meaning assigned by section 125.1 of that Act,
- (c) 30% of the corporation's taxable production profits from oil or gas wells for the year, within the meaning assigned by subparagraph (11)(f) of this Motion,
- (d) 25% of the corporation's taxable production profits from mineral resources for the year, within the meaning assigned by subparagraph (11)(e) of this Motion, and
- (e) where the taxation year is partly before May 7, 1974 and partly after May 6, 1974, 38% of the aggregate of

(i) 66 2/3% of the amount, if any, by which the amount determined under clause (11)(g)(i) of this Motion exceeds the aggregate of the amounts determined under clauses (11)(g)(ii) and (iii) of this Motion, and

(ii) 66 2/3% of the amount, if any, by which the amount determined under clause (11)(h)(i) of this Motion exceeds the aggregate of the amounts determined under clauses (11)(h)(ii) and (iii) of this Motion

that

(f) the number of days in that portion of the year that is after April 1974 and before May 1975,

is of

(g) the number of days in the year.

Royalties
attributable to
production in
Canada of
petroleum,
natural gas or
minerals:
inclusion of
income

(7) That section 12 of the said Act shall be amended so as to require a taxpayer, in computing his income for a taxation year, to include therein, if an amount hereinafter described is not otherwise included in computing his income for the year pursuant to any other provision of Part I of the said Act, an amount receivable in the year or the fair market value of any property receivable in the year, whether pursuant to a law other than the said Act or a contract, that became receivable after May 6, 1974, by

(a) Her Majesty in right of Canada or a province,

(b) an agent of Her Majesty in right of Canada or a province, or

(c) a corporation, commission or association that is controlled, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

as a royalty, tax, rental, levy or otherwise, or as an amount, however described, that may reasonably be regarded as being in lieu of a royalty, tax, rental or levy, that may reasonably be regarded as dependent upon the production in Canada of

- (d) petroleum, natural gas or related hydrocarbons, or
- (e) metal or industrial minerals, to any stage that is not beyond the prime metal stage or its equivalent

from an oil or gas well or mineral resource situated on property in Canada from which the taxpayer had, at the time of such production, a right to take or remove petroleum, natural gas or related hydrocarbons or a right to take or remove metal or industrial minerals.

Royalties attributable to production in Canada of petroleum, natural gas or minerals: non-deductibility

- (8) That with respect to an amount receivable in a year or the fair market value of any property receivable in the year as described in paragraph (7) of this Motion, that became receivable after May 6, 1974 and is required to be included in computing the income of a taxpayer by virtue of the said paragraph or any provision of Part I of the said Act, the taxpayer shall not be entitled to a deduction therefor in computing his income for the year.

Inadequate consideration: petroleum, natural gas or minerals

- (9) That where after May 6, 1974, a taxpayer who has a right to take or remove petroleum, natural gas or related hydrocarbons or a right to

take or remove metal or industrial minerals from an oil or gas well or mineral resource situated in Canada

(a) disposes of any petroleum, natural gas or related hydrocarbons or metal or industrial minerals produced in the operation of such well or resource to

(i) Her Majesty in right of Canada or a province,

(ii) an agent of Her Majesty in right of Canada or a province, or

(iii) a corporation, commission or association that is controlled, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

for no proceeds or for proceeds less than the fair market value thereof at the time he so disposes of it, he shall be deemed to have received proceeds of disposition therefor equal to that fair market value determined, in circumstances where he is required by a law or a contract to so dispose thereof, without regard to that law or contract; and

(b) acquires any petroleum, natural gas or related hydrocarbons or metal or industrial minerals produced in the operation of such well or resource from

(i) Her Majesty in right of Canada or a province,

- (ii) an agent of Her Majesty in right of Canada or a province, or
- (iii) a corporation, commission or association that is controlled, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or a province or by an agent of Her Majesty in right of Canada or a province

at an amount in excess of the fair market value thereof at the time he so acquired the petroleum, natural gas or related hydrocarbons or metal or industrial minerals, he shall be deemed to have acquired the petroleum, natural gas or related hydrocarbons or metal or industrial minerals at that fair market value determined, in circumstances where he is required by a law or contract to so acquire the petroleum, natural gas or related hydrocarbons or metal or industrial minerals, without regard to that law or contract.

Canadian
exploration and
development
expenses:
limitation

- (10) That for the purpose of computing the income of a taxpayer under Part I of the said Act, Canadian exploration and development expenses, within the meaning assigned by subsection 66(15) of the said Act, incurred after May 6, 1974 shall be deductible at an annual rate not exceeding 30% of the unclaimed balance thereof.

Tax payable by corporation having taxable production profits from a mineral resource in Canada or from an oil or gas well in Canada:

(11) That for taxation years ending after May 6, 1974,

(a) the tax payable under Part I of the said Act by a corporation that during the taxation year had taxable production profits from mineral resources in Canada, or taxable production profits from oil or gas wells in Canada, shall be

(i) where its taxable production profits are not less than its taxable income or taxable income earned in Canada, as the case may be, 50% of its taxable income, and

(ii) in any other case, the aggregate of

(A) 50% of its taxable production profits, and

(B) the amount of its tax payable that would be determined under section 123 of the said Act, if the "amount taxable" therein referred to was its taxable income or taxable income earned in Canada less its taxable production profits;

deduction from tax

(b) there may be deducted from the tax otherwise payable under Part I of the said Act by a corporation for a taxation year, an amount equal to 15% of the lesser of

(i) its taxable production profits from mineral resources in Canada earned in the year, and

(ii) the amount, if any, by which its taxable income or taxable income earned in Canada, as the case may be, earned in the year exceeds the aggregate of

- (A) 4 times the amount, if any, deductible under section 125 of the said Act from the tax for the year otherwise payable by it under Part I of that Act, and
 - (B) its Canadian investment income and its foreign investment income (within the meanings assigned by subsection 129(4) of the said Act) for the year;
- (c) there may be deducted from the tax otherwise payable under Part I of the said Act by a corporation for a taxation year, an amount equal to 10% of the lesser of
- (i) its taxable production profits from oil or gas wells in Canada earned in the year, and
 - (ii) the amount, if any, by which the amount described in clause (b)(ii) hereof exceeds the amount described in clause (b)(i) hereof;
- (d) clause 125.1(1)(a)(ii)(A) of the said Act shall be amended so that where a corporation's taxation year ends after May 6, 1974, the amount to be included by virtue of that clause shall be the aggregate of
- (i) the lesser of the amounts determined under clauses (b)(i) and (ii) hereof in respect of the corporation for the year, and
 - (ii) the lesser of the amounts determined under clauses (c)(i) and (ii) hereof;
- (e) subject to subparagraph (g) hereof, for the purposes of this paragraph,

taxable production profits from mineral resources of a corporation for a taxation year means the amount if any by which the aggregate of its incomes for the year from the following sources exceeds the aggregate of its losses for the year from the following sources

- (i) the production in Canada of
 - (A) petroleum, natural gas or related hydrocarbons, or
 - (B) metals or minerals to any stage that is not beyond the prime metal stage or its equivalent,

from mineral resources in Canada operated by the corporation, and

- (ii) the processing in Canada of ores from a mineral resource in Canada not operated by the corporation to any stage that is not beyond the prime metal stage or its equivalent

computed in accordance with the said Act on the assumption that the corporation had during the taxation year no income or loss except from those sources and was allowed no deductions in computing its income for the taxation year other than

- (iii) amounts deductible under any of section 66 of the said Act (other than amounts in respect of foreign exploration and development expenses as defined therein), section 29 or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, where the corporation has no taxable production profits from oil or gas wells and, in any other case, such proportion of those amounts as

may reasonably be regarded as wholly applicable to mineral resources in Canada,

- (iv) the amount, if any, by which the aggregate of the losses referred to in subparagraph (f) hereof exceeds the aggregate of the incomes referred to therein,
- (v) such part of the aggregate of amounts allowed under section 65 of the said Act for the year as is in respect of sources of income described in clauses (i) and (ii) hereof, and
- (vi) such other deductions as may reasonably be regarded as applicable to those sources, and

for the purpose of clause (i) hereof,

- (vii) a person who has an interest in the proceeds of production from a mineral resource in Canada under an agreement providing that he shall share in the profits remaining after deducting the operating costs of the mineral resource, shall be deemed to be a person who operates the mineral resource, and
 - (viii) income or loss from a source described in clause (i) hereof does not include income or loss derived from transporting or processing petroleum, natural gas or related hydrocarbons;
- (f) subject to subparagraph (h) hereof, for the purposes of this paragraph, taxable production profits from oil or gas wells of a corporation for a taxation year means the amount, if any, by which the aggregate of its incomes for the year from production

in Canada of petroleum, natural gas or related hydrocarbons exceeds the aggregate of its losses for the year from such production from oil or gas wells in Canada operated by the corporation and computed in accordance with the said Act on the assumption that the corporation had during the taxation year no income or loss except from such production and was allowed no deductions in computing its income for the taxation year other than

- (i) amounts deductible under any of section 66 of the said Act (other than amounts in respect of foreign exploration and development expenses as defined therein) section 29 or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, to the extent they are not allowed as a deducted under subclause (e)(iii) hereof,
 - (ii) the amount, if any, by which the aggregate of the losses referred to in clauses (e)(i) and (ii) hereof exceeds the aggregate of the incomes referred to therein,
 - (iii) such part of the aggregate of amounts allowed under section 65 of the said Act for the year as is in respect of such production, and
 - (iv) such other deductions as may reasonably be regarded as applicable to such production, and
- for the purposes of clause (i) hereof,
- (v) a person who has an interest in the proceeds of production from oil and gas wells in Canada under an agreement providing that he shall share in the profits remaining after deducting the

operating costs of the oil or gas wells, shall be deemed to be a person who operates the oil or gas wells, and

- (vi) income or loss from production described in this subparagraph does not include income or loss derived from transporting or processing petroleum, natural gas or related hydrocarbons;
- (g) notwithstanding subparagraph (e) hereof, where a corporation has a taxation year part of which is before May 7, 1974 and part of which is after May 6, 1974, in computing its taxable production profits from mineral resources for the year, the following rules shall apply:
 - (i) determine the portion of the amount that would be computed under subparagraph (e) hereof, if no amounts were deducted under any of paragraph 20(1)(a), section 65 or 66 of the said Act and section 29 or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, that may reasonably be determined as being earned before May 7, 1974,
 - (ii) determine the proportion of that part of the amount deductible under paragraph 20(1)(a) of the said Act for its taxation year with respect to property acquired for purposes of earning its income from the sources described in subparagraph (e) hereof that the number of days in that portion of its taxation year that is before May 7, 1974, is of the number of days in the whole taxation year,

- (iii) determine the amounts deductible for the taxation year under section 66 of the said Act (other than amounts in respect of foreign exploration and development expenses as defined therein), in respect of expenditures incurred before May 7, 1974, section 29 or subsection 17(2) or (6) of the income Tax Application Rules, 1971 where the corporation has no taxable production profits from oil or gas wells and, in any other case, such proportion of those amounts as may reasonably be regarded as wholly applicable to sources referred to in clauses (e)(i) and (ii) hereof,
- (iv) determine the amount if any by which the amount described in clause (iii) hereof exceeds the amount by which the amount determined in clause (i) hereof exceeds the amount determined in clause (ii) hereof,
- (v) determine the portion of the amount that would be computed under subparagraph (e) hereof if no amounts were deducted under any of paragraph 20(1)(a), section 65 and 66 of the said Act, or section 29, or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, and that may reasonably be regarded as being earned after May 6, 1974,
- (vi) determine the proportion of the part described in clause (ii) hereof that the number of days in that portion of its taxation year that is after May 6, 1974, is of the number of days in the whole taxation year,

- (vii) determine the amount deductible under section 66 of the said Act (other than an amount in respect of foreign exploration and development expenses as defined therein) with respect to expenditures incurred after May 6, 1974, may reasonably be regarded as wholly applicable to the sources referred to in subclauses (e)(i) and (ii) hereof,
 - (viii) determine the amount by which the amount described in clause (v) hereof exceeds the aggregate of the amounts described in clauses (iv), (vi) and (vii) hereof,
 - (ix) determine the amount deductible under section 65 of the said Act with respect to the amount described in clause (viii) hereof, and
 - (x) for the purposes of subparagraph (e) hereof, taxable production profits from a mineral resource is the amount determined under clause (viii) hereof less the amount determined under clause (ix) hereof; and
- (h) notwithstanding subparagraph (f) hereof, where a corporation has a taxation year part of which is before May 7, 1974 and part of which is after May 6, 1974, in computing its taxable production profits from oil or gas wells for the year, the following rules shall apply:
- (i) determine the portion of the amount that would be computed under subparagraph (f) hereof, if no amounts were deducted under any of paragraph 20(1)(a), section 65 and 66 of the said Act, or section 29, or subsection

17(2) or (6) of the Income Tax Application Rules, 1971, that may reasonably be determined as being earned before May 7, 1974,

- (ii) determine the proportion of that part of the amount deductible under paragraph 20(1)(a) of the said Act for its taxation year with respect to property acquired for the purpose of earning its income from the production in Canada of petroleum, natural gas or related hydrocarbons that the number of days in that portion of its taxation year that is before May 7, 1974, is of the number of days in the whole taxation year,
- (iii) determine the amounts deductible for its taxation year under section 66 of the said Act in respect of Canadian exploration and development expenditures incurred before May 7, 1974, or section 29, or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, that may not reasonably be regarded as being wholly applicable to sources referred to in clauses (e)(i) and (ii), to the extent they are not allowed as a deduction under clause (g)(iii) hereof,
- (iv) determine the amount if any by which the amount described in clause (iii) hereof exceeds the amount by which the amount determined in clause (i) hereof exceeds the amount determined in clause (ii) hereof,
- (v) determine the portion of the amount that would be computed under subparagraph (f) hereof if no amounts were deducted under

any of paragraph 20(1)(a), section 65 and 66 of the said Act, or section 29, or subsection 17(2) or (6) of the Income Tax Application Rules, 1971, that may reasonably be regarded as being earned after May 6, 1974

- (vi) determine the proportion of the part described in clause (ii) hereof that the number of days in that portion of its taxation year that is after May 6, 1974, is of the number of days in the whole taxation year,
- (vii) determine the amount deductible under section 66 of the said Act with respect to Canadian exploration and development expenditures incurred after May 6, 1974, that may not reasonably be regarded as being wholly applicable to the sources referred to in clauses (e)(i) and (ii) hereof, to the extent they are not allowed as a deduction under clause (g)(vii) hereof,
- (viii) determine the amount by which the amount described in clause (v) hereof exceeds the aggregate of the amounts described in clauses (iv), (vi) and (vii) hereof,
- (ix) determine the amount deductible under section 65 of the said Act with respect to the amount described in clause (viii) hereof, and
- (x) for the purposes of subparagraph (f) hereof, taxable production profits from an oil or gas well is the amount determined under clause (viii) hereof less the amount determined under clause (ix) hereof.

Land that is
inventory or
held for resale
or development:
interest and
property taxes:
interest on
borrowed money

(12) That where after May 6, 1974, an amount is paid or becomes payable by a taxpayer as, on account or in lieu of payment of, or in satisfaction of, interest or property taxes referred to in paragraphs 18(2)(a) and (b) of the said Act in respect of land, in computing the taxpayers's income for a taxation year from a business or property, the taxpayer shall not be entitled to any deduction where the land is land that cannot reasonably be considered to have been, in that year

- (a) used in, or held in the course of, a business carried on by the taxpayer other than a business in which land is held primarily for the purpose of resale or development in the ordinary course of carrying on that business, or
- (b) held primarily for the purpose of gaining or producing income of the taxpayer from the land for that year;

and any deduction denied to the taxpayer by virtue hereof shall be included in the cost to the taxpayer of land under subsection 10(1) of the said Act, and for the purposes of this paragraph, interest on borrowed money shall include

- (c) interest paid or payable in the year in respect of borrowings that cannot be identified with particular land but that can nonetheless reasonably be considered, having regard to all the circumstances including the method followed by the taxpayer in computing his profit, to be interest on borrowed money used to acquire land or on an amount payable for land; and
- (d) interest paid or payable in the year by a taxpayer in respect of borrowings that can reasonably be considered, having regard to all the circumstances, to have been used to assist, directly or indirectly, another taxpayer with

whom the taxpayer does not deal at arms length to acquire land to be used or held by the other taxpayer otherwise than as described in subparagraphs (a) and (b) hereof, other than in circumstances where the assistance is in the form of a loan and a reasonable rate of interest is charged by the taxpayer to the other taxpayer in relation to those borrowings.

Taxpayers lending
money on the
security of
mortgages, etc.:
reserves:
amortized cost
of security:
limitation:
trust companies

(13) That for the 1974 and subsequent taxation years, section 33 of the said Act shall be amended as follows:

- (a) the words "principal amount" in subparagraph 33(1)(a)(i) of that Act shall be deleted and the words "amortized cost" substituted therefor;
- (b) the maximum amount of a reserve to which a taxpayer referred to in the said section is entitled shall be the lesser of the amount described in paragraph 33(1)(b) of that Act and $1\frac{1}{2}\%$ of the aggregate of the amortized cost to it of
 - (i) each property referred to in paragraph 33(1)(a) of that Act, and
 - (ii) each property referred to in subparagraph (c) hereof in the case of a taxpayer therein referred to,

if such aggregate amount does not exceed \$2,000,000,000 and, if the aggregate amount exceeds \$2,000,000,000, the maximum amount of the reserve shall be $1\frac{1}{2}\%$ on the first \$2,000,000,000 and 1% on the excess;

- (c) a taxpayer that is a corporation licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering its services as trustee to

the public shall, in addition to being entitled to claim a reserve in respect of property referred to in paragraph 33(1)(a) of that Act, be entitled to claim a reserve

- (i) on the amortized cost of bonds and debentures owned by it at the end of a taxation year (other than bonds and debentures that mature within one year after that time) that are held by it in respect of money received by it in trust for investment subject to a guarantee by it in respect of the repayment of the principal or the payment of interest, or both, and
 - (ii) on each amount due and unpaid as or on account of interest payable under a bond or debenture referred to in clause (c)(i) hereof to the taxpayer; and
- (d) for the purposes of this paragraph, amortized cost of a bond, debenture, mortgage, hypothec or agreement of sale (the "property") at any particular time means the amount, if any, by which
- (i) the cost to the taxpayer of acquiring the property, and
 - (ii) the aggregate of such portion of each amount, if any, by which the principal amount of the property at the time it was acquired by the taxpayer exceeds the cost to the taxpayer of acquiring it, as was included in computing its income for any taxation year ending before or concurrently with that time,
- exceeds

(iii) the aggregate of such portion of each amount, if any, by which the cost to the taxpayer of acquiring the property exceeds the principal amount of the property at the time it was acquired, as was deducted in computing its income for any taxation year ending before or concurrently with that time, and

(iv) the aggregate of all amounts that, before that time, the taxpayer became entitled to receive as or on account or in lieu of payment of or in satisfaction of the principal amount of the property.

Life insurance
corporations:
reserve:
limitation

(14) That for the 1974 and subsequent taxation years, in computing a life insurer's income for a taxation year from the carrying on of its life insurance business in Canada, the maximum amount deductible by virtue of paragraph 138(3)(c) of the said Act shall be the lesser of the aggregate described in subparagraph (ii) thereof and $1\frac{1}{2}\%$ where the aggregate amount of the amortized cost to it at the end of the year of each property referred to therein, owned by it at that time does not exceed \$2,000,000,000 and, where that aggregate exceeds \$2,000,000,000, the maximum amount deductible shall be $1\frac{1}{2}\%$ on the first \$2,000,000,000 and 1% on the excess.

Special allowances paid to employee posted to area where education in his language not available for his child: not taxable benefit

(15) That for the 1974 and subsequent taxation years, where a taxpayer has received from his employer a reasonable allowance in respect of his child who was during a year:

(a) living away from the taxpayer's domestic establishment in the location where he is required by his employer to live, and

(b) in full-time attendance at a school in which the language primarily used for instruction is an official language of Canada and the language primarily used by the taxpayer,

such an allowance shall not constitute a taxable benefit of the taxpayer by virtue of his office or employment, provided that

(c) a suitable school primarily using that language for instruction is not available to the child in the location where the taxpayer is so required to live, and

(d) the school attended by the child is the closest suitable school to that location.

Certain premiums paid for by employee in respect of group term life insurance policies: not taxable benefit

(16) That for the 1974 and subsequent taxation years, that portion of a premium for any excess over \$25,000 of the amount of life insurance in effect on the life of a taxpayer under a group term life insurance policy for which the employer is reimbursed by the taxpayer shall not, notwithstanding subsection 6(4) of the said Act, constitute a taxable benefit of the taxpayer.

Employees required to hire assistants: deduction for payments for unemployment insurance and to Canada Pension Plan

(17) That for the 1974 and subsequent taxation years, where an employee is required by the terms of his contract to hire an assistant or substitute, an amount paid by the employee in a year in respect of such assistant or substitute under the Unemployment Insurance Act, 1971 or the Canada Pension Plan or a provincial pension plan as defined in section 3 of that Plan, may be deducted by the employee in computing his income for the year.

Interest income
of financial
corporations

(18) That

- (a) for the 1972 and subsequent taxation years, there shall be included in computing the income from a business of a financial corporation for a taxation year, interest accrued in respect of the year and interest receivable in the year, to the extent that such interest was not included in computing the corporation's income for a previous taxation year;
- (b) where a taxpayer is
 - (i) a credit union, or
 - (ii) a financial corporation, other than a credit union, that has in its taxation years ending before 1972, according to the method consistently adopted by it for computing its income from a business, not included therein interest accrued in respect of the year and interest receivable in the year,

subparagraph (a) hereof shall be applicable to its 1975 and subsequent taxation years and, except in the case of a credit union, interest that was not included in computing the taxpayer's income for the 1974 taxation year but would have been included if subparagraph (a) hereof had applied shall be included in computing its income for the 1975 taxation year; and

- (c) for the purposes of this paragraph, a "financial corporation" shall include a taxpayer that is a bank, credit union, life insurance corporation, trust company or a corporation (except a mutual fund corporation or a mortgage investment corporation) that

borrow money from the public in the course of carrying on a business the principal purpose of which is the making of loans, or whose principal business is the making of loans.

Deemed capital
cost of certain
property

(19) That

- (a) for the 1972 and subsequent taxation years, any part of the grant, subsidy or other assistance, referred to in paragraph 13(7)(e) of the said Act, when repaid by the taxpayer, shall be added to the capital cost of the property;
- (b) for the 1974 and subsequent taxation years, the rule in the said paragraph, whereby the capital cost of certain property therein referred to is determined, shall apply for all purposes of the said Act; and
- (c) where after May 6, 1974, an amount that is referred to in the said paragraph, as an amount authorized to be paid under an Appropriation Act and on terms and conditions approved by the Treasury Board is received or becomes receivable by a taxpayer, in order for the amount not to reduce the capital cost as otherwise determined, such amount must be paid for the purpose of advancing or sustaining scientific research, within the meaning assigned by section 37 of the said Act, of Canadian manufacturing or other industry.

Commercial
vessels:
reinvestment of
proceeds of
disposition

(20) That section 13 of the said Act shall be amended

- (a) by deleting the words "before 1974" from subparagraph (15)(a)(i) thereof and substituting therefor the words "before May 1, 1974"; and

- (b) by deleting the year "1974" from each of subparagraph (15)(a)(ii) and subsections (18), (19) and (20) thereof and substituting therefor the year "1975".

Timber limits
and cutting
rights

- (21) That where a taxpayer acquires after May 6, 1974, a property that is a timber limit or a right or license to cut timber from a timber limit or area in Canada, provided that all or any part of the cost may reasonably be regarded as consideration for an expectation of being able to or a right to renew, acquire or apply for a timber limit or a right or licence to cut timber from a timber limit or area in Canada,

- (a) the cost of the property shall form part of an aggregate amount to be called the cumulative timber resource capital account (the "account") of the taxpayer;

- (b) the taxpayer shall be entitled to a deduction, in computing his income for a year, of 15% of the unclaimed balance of the account at the end of the year; and

- (c) the proceeds of disposition of a property in a year, the cost of which has been included in the account,
 - (i) shall first reduce the unclaimed balance of the account immediately before the end of the year, and
 - (ii) to the extent such proceeds exceed the unclaimed balance of the account immediately before the end of the year, shall be included in computing the income of the taxpayer for the year.

Thin
capitalization
rules: non-
application to
certain subsi-
diaries of non-
resident
insurers.

- (22) That for the 1972 and subsequent taxation years, there may be excluded by a subsidiary of a non-resident life insurance corporation in computing the amount of its outstanding debts to specified non-residents, all debts or other obligations to pay an amount to the non-resident life insurance corporation that has

- (a) elected under subsection 138(9) of the said Act, and
- (b) included such debts and obligations as property held by it in the year in the course of carrying on an insurance business in Canada and has included the revenue therefrom in computing its income for the year from carrying on an insurance business in Canada.

Reserve for amount not receivable until later year: limitation

(23) That where a taxpayer sells a property after May 6, 1974, in the course of a business, the taxpayer shall not be entitled to any deduction under paragraph 20(1)(n) of the said Act where

- (a) the taxpayer, at any time in the year of sale or the immediately following year,
 - (i) becomes exempt from tax under any provision of Part I of the said Act, or
 - (ii) where the taxpayer is a non-resident, does not carry on business in Canada, or
- (b) the person who acquired the property from the taxpayer was a corporation that, immediately after the acquisition thereof,
 - (i) was controlled directly or indirectly by the taxpayer,
 - (ii) was controlled directly or indirectly by a person or group of persons by whom the taxpayer was controlled directly or indirectly, or
 - (iii) controlled the taxpayer directly or indirectly.

Deductibility of fees paid to investment counsel, administrators and managers

(24) That for the 1974 and subsequent taxation years, the full amount of fees (other than commissions) paid by a taxpayer in the year to a person

- (a) for advice as to the advisability of purchasing or selling a specific share or security, or
- (b) for services in respect of the administration or management of shares or securities of the taxpayer,

if the person's principal business

- (c) is advising others as to the advisability of purchasing or selling specific shares or securities, or
- (d) includes the provision of services in respect of the administration or management of shares or securities,

shall be deductible in computing the taxpayer's income for the year from a business or property.

Deductibility
of foreign
taxes

- (25) That for the 1976 and subsequent taxation years, subsection 20(11) of the said Act shall not apply to income that is derived from real property situated outside Canada.

Ceasing to carry
on business:
bulk sale of
accounts
receivable and
inventory

- (26) That
 - (a) where a taxpayer sells debts referred to in section 22 of the said Act after May 6, 1974 to a person with whom he was not dealing at arm's length, the consideration paid for such debts as stated in the election envisaged by subsection 22(2) of that Act shall be subject to the provisions of subsection 69(1) of that Act; and
 - (b) subsection 23(2) of the said Act shall be repealed with respect to sales of property referred to in subsection (1) thereof after May 6, 1974.

Scientific
research

- (27) That for the 1974 and subsequent taxation years, a taxpayer who is eligible to deduct expenditures for a taxation year in respect of scientific research referred to in

section 37 of the said Act may choose any amount thereof as the deduction for the year and the unclaimed amount may be carried forward and deducted in subsequent years.

Capital gains:
reserve for
proceeds
receivable in
a subsequent year:

(28) That

(a) for the 1972 and subsequent taxation years,

(i) subparagraph 40(1)(a)(iii) of the said Act shall be amended by deleting the words "due to" and substituting therefor the words "receivable by"; and

(ii) the aggregate referred to in paragraph 40(3)(b) of the said Act shall consist of

(A) the cost to a taxpayer of the property as determined for purposes of computing the adjusted cost base to him of the property at any time, and

(B) all amounts required by subsection 53(1) of the said Act to be added to the cost to the taxpayer of the property in computing the adjusted cost base to him of the property at that time; and

deemed gain
where deductions
in computing
adjusted cost
base exceed
aggregate of
cost and
inclusions in
computing
adjusted cost
base:

(b) where a taxpayer disposes of property referred to in subsection 40(1)(a) of the said Act after May 6, 1974, the taxpayer shall not be entitled to claim any reserve under subparagraph (iii) thereof where

(i) the person who acquired the property from the taxpayer was a corporation that, immediately after the acquisition thereof,

reserve for
proceeds of
disposition of
capital property
not receivable
until later year:
limitation

- (A) was controlled directly or indirectly by the taxpayer,
- (B) was controlled directly or indirectly by a person or group of persons by whom the taxpayer was controlled directly or indirectly, or
- (C) controlled the taxpayer directly or indirectly, or

(ii) the taxpayer was at the end of the year of disposition or at any time in the immediately following year, not resident in Canada or was exempt from tax by virtue of any provision of Part I of the said Act.

Part dispositions
of property

(29) That for the 1972 and subsequent taxation years, section 43 of the said Act shall apply in computing a taxpayer's loss for a taxation year from the disposition of a part of a property.

Property
destroyed or
taken under
statutory
authority:
deferral
of gain

(30) That with respect to dispositions hereinafter deemed to occur after May 6, 1974 of capital property owned by a taxpayer, that was lost, destroyed, taken under statutory authority or sold, as described in subparagraph 54(h)(iii) or (iv) of the said Act:

(a) subject to sections 48 and 70 of the said Act, the date of disposition of such property and the date that an amount has become receivable by that taxpayer as proceeds of disposition, therefor shall be deemed to be the earliest of

(i) the date the taxpayer agrees to an amount as full compensation to him for such property,

(ii) where a claim, suit, appeal or other proceeding is taken before one or more tribunals or courts of competent jurisdiction, the

date on which the compensation for such property is finally determined by such tribunals or courts, and

- (iii) where a claim, suit, appeal or other proceeding, referred to in clause (ii) hereof, is not taken within two years of the loss, destruction or taking of the property, the date two years following the date of loss, destruction or taking, and

the taxpayer shall be deemed to own such property until the date on which he is deemed by this subparagraph to have disposed of it;

- (b) that part of section 44 of the said Act preceding paragraph (a) thereof shall be repealed and a rule substituted therefor to make paragraphs (a) and (b) thereof applicable where the property disposed of (the "former property") is replaced, before the end of the second taxation year following the taxation year in which the former property was disposed of, with a capital property (the "replacement property") that has not been disposed of before the former property was disposed of;
- (c) the word "cost" in section 44 of the said Act shall be repealed and the words "cost or capital cost" shall be substituted therefor, and the amount deemed under paragraph 44(b) of that Act to be the cost or capital cost to the taxpayer, as the case may be, of the replacement property shall be its cost or capital cost at any time after the taxpayer disposed of his former property;
- (d) where the taxpayer's replacement property was depreciable property of a prescribed class and was acquired by

the taxpayer prior to the time he disposed of his former property, and where

- (i) the reduction in the capital cost to the taxpayer of his replacement property by virtue of paragraph 44(b) of the said Act, as amended by subparagraph (c) hereof

exceeds

- (ii) the undepreciated capital cost to the taxpayer of depreciable property of the class to which his replacement property belongs, immediately before the reduction in capital cost referred to in clause (i) hereof,

the amount of such excess shall be included in computing the taxpayer's income for his taxation year in which his former property was disposed of and, for the purposes of subsection 13(2) of the said Act, the amount so included in his income shall be deemed to have been so included by virtue of subsection 13(1) of the said Act as a result of the disposition of depreciable property of the class to which the taxpayer's replacement property belongs;

- (e) subsection 70(3) of the said Act shall not apply to proceeds of disposition referred to in subparagraphs 54(h)(iii) or (iv) of the said Act; and
- (f) where the former property is depreciable property of a prescribed class,
 - (i) the word "payable" in paragraphs 13(4)(a) and (b) of the said Act shall be deleted and the word "receivable" substituted therefor, and

(ii) the rules in paragraphs 13(4)(c) and (d) of the said Act shall be amended to provide that the amount otherwise included in the taxpayer's income by virtue of section 13 of that Act,

(A) shall, subject to sub-clause (B) hereof, not be included in computing the income of the taxpayer for the initial year to the extent it was used, before

1. the end of the time certified by the Minister of Industry, Trade and Commerce to be a reasonable time following the initial year, in the case of a vessel, and

2. in any other case, the end of the second taxation year following the initial year,

to acquire a depreciable property of a prescribed class, which property was not disposed of by the taxpayer before the time the former property was disposed of, as a replacement for the property so disposed of; and

(B) shall to the extent the amount has been used to acquire the replacement property within the relevant time set out in sub-clause (A) hereof, be deemed to be proceeds of disposition of depreciable

property of the taxpayer of the same class as the property so acquired from a disposition made at the later of

1. the time the replacement property was acquired, or
2. the time immediately after the time immediately after the property referred to in paragraphs 13(4)(a) or (b) of the said Act was disposed of.

Departure tax exemption

(31) That for the 1972 and subsequent taxation years, subsection 48(4) of the said Act shall be amended

- (a) to include in paragraph (a) thereof property acquired by the individual by bequest or inheritance after the last preceding time he became resident in Canada; and
- (b) to repeal the phrase "36 months" in paragraph (b) thereof and substitute therefor "60 months".

Options: consideration received or paid for extension or renewal

(32) That where after May 6, 1974, a taxpayer who granted an option to which subsection 49(1) or (2) of the said Act applied, grants one or more extensions or renewals of that option, any consideration therefor shall be subject to the rules of section 49 of that Act.

Convertible
properties

(33) That section 51 of the said Act shall be amended to provide that where shares of one class of the capital stock of a corporation have after May 6, 1974, been acquired by a taxpayer in exchange for a capital property of the taxpayer that was a share, bond, debenture or note of the corporation (a "convertible property") the terms of which conferred upon the holder the right to make the exchange and no consideration was received by the taxpayer for the convertible property other than shares of that class,

- (a) the exchange shall be deemed not to have been a disposition of property, and
- (b) the cost to the taxpayer of the shares shall be deemed to be the adjusted cost base to him of the convertible property immediately before the exchange.

Cost of
certain
property

(34) That for the 1972 and subsequent taxation years, subsection 52(1) or (1.1) of the said Act shall not apply with respect to property acquired after 1971 as described in any of subsections 52(2), (3) or (6) of that Act.

Adjusted cost
base of
partnership
interest:
addition of
amounts taxed
as income in
the year of
death:

(35) That in computing the adjusted cost base of a taxpayer's interest in a partnership at any time after 1971,

- (a) there shall be added to the cost to him thereof
 - (i) any amount included in computing his income in respect of the partnership for the taxation year as a consequence of his death by virtue of subsection 70(2) of the said Act other than an amount included therein for the year by virtue of subparagraph (75)(f) of this Motion; and

exempt
partnership
income:

(ii) his share of

(A) any amounts deducted under paragraphs 29(1)(b) and 29(2)(b) of the said Act in computing the income of the partnership from a farming business for a taxation year, and

(B) the amount, if any, by which

1. any amount receivable by the partnership in respect of the disposition after 1971 of a property owned by the partnership on December 31, 1971 that is a property referred to in paragraph 59(3)(a) or (b) of the said Act

exceeds

2. the relevant percentage as defined in subsection 59(4) of that Act of the amount receivable described in sub-subclause 1. hereof; and

depletion
allowance in
respect of
resource
property

(b) there shall not be deducted any amount previously deducted by him as depletion allowance in respect of either partnership property that is or partnership income from, an oil or gas well, mineral resource, or timber limit.

Adjustment to
cost base of
certain capital
property:
repayment of a
grant, subsidy or
assistance:

(36) That

(a) for the purpose of computing, at any time after 1971, the adjusted cost base to a taxpayer of any property, the amount to be deducted under paragraph 53(2)(k) of the said Act shall be reduced by any part of the grant, subsidy or assistance therein referred to that has been repaid by the taxpayer before that time; and

contributions
of capital:

(b) for the purpose of computing, at any time after May 6, 1974, the adjusted cost base to a taxpayer of a property,

(i) the amount to be added thereto by virtue of paragraph 53(1)(c) of the said Act shall not include a contribution of capital made by the taxpayer to the corporation by virtue of a disposition of property in respect of which the taxpayer and the corporation have made an election pursuant to section 85 of that Act;

shares of joint
exploration
corporation:

(ii) where the property is a share of a joint exploration corporation, within the meaning assigned by subsection 66(15) of the said Act, there shall be deducted exploration and development expenses renounced by the corporation in respect of contributions of capital made to it by the taxpayer, if such contributions had previously been added to the adjusted cost base of the share by virtue of paragraph 53(1)(c) of that Act; and

capital interest
in a non-resident
trust: unit of
non-resident
unit trust

(iii) where the property is a capital interest in a non-resident trust or a unit of a non-resident unit trust referred to in subparagraphs 53(2)(i) and (j) of the said Act, respectively, the adjusted cost base of that interest or unit to him, as the case may be, shall be reduced as provided therein if more than 50% of the fair market value of the trust property at the time he acquired the interest or unit, as the case may be, consisted of taxable Canadian property, within the meaning assigned by subsection 248(1) of that Act for the purpose of section 2 thereof.

Registered
retirement
savings and
deferred profit
sharing plans:
contributions
and transfers
of property

(37) That for the 1974 and subsequent taxation years,

- (a) where a taxpayer transfers property to a trust governed by a registered retirement savings plan or an amended plan, within the meaning assigned by section 146 of the said Act, or a trust governed by a deferred profit sharing plan or revoked plan, within the meaning assigned by section 147 of that Act, the transfer shall constitute a disposition of the property by the taxpayer for the purpose of paragraph 54(c) of the said Act,
- (b) a transfer of property from a trust governed by any such plan to a beneficiary shall constitute a disposition of property by the trust for the purpose of the said paragraph,
- (c) subsection 146(8) of the said Act shall be amended to provide that amounts received by a taxpayer in a taxation year as a benefit out of a registered retirement savings plan shall be included in computing his income for the year, and

- (d) paragraph 146(1)(b) of the said Act shall be repealed and rules substituted therefor to define a benefit for purposes of a retirement savings plan as including any amount received out of or under such a plan, otherwise than as a premium.

Superficial
losses

- (38) That for the 1972 and subsequent taxation years, subparagraph 54(i)(iii) of the said Act shall be amended so that a loss arising on a disposition deemed by subsection 45(1) or section 50 of that Act to have been made shall be deemed not to be a superficial loss.

Assistance
benefits paid
to employees in
leather tanning
or footwear
industries

- (39) That for the 1974 and subsequent taxation years, a taxpayer who
 - (a) was employed in the leather tanning industry or in the production of leather footwear, and
 - (b) received a benefit in a year under any law of Canada providing for a scheme of adjustment assistance benefits,

shall be required to include the amount of the benefit in computing his income for the year.

Alimony and
maintenance
payments received
by third parties

- (40) That where an amount referred to in paragraph 56(1)(b) or (c) of the said Act has been received pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, or any variation thereof, that was given or made, as the case may be, after May 6, 1974, by a person for the benefit of a taxpayer or a child of the taxpayer in the custody of the taxpayer, the amount shall be included by the taxpayer in computing his income for the year.

Resource
property:
proceeds of
disposition:
delay rentals

- (41) That for taxation years commencing after May 6, 1974,
- (a) where all or any part of a taxpayer's proceeds of disposition of a property, right, license or privilege referred to in subsection 59(1) or (3) of the said Act do not become receivable until after the end of a taxation year, there shall be included in computing the taxpayer's income for the year the amount of the proceeds thereof that became receivable in that year;
 - (b) in order for the relevant percentage, within the meaning assigned by subsection 59(4) of the said Act, to apply to property referred to in subsection 59(3) of that Act, the property, in addition to the other requirements therein referred to, must have been owned by the taxpayer from December 31, 1971 until the time of disposition without interruption;
 - (c) where a taxpayer acquired, after 1971, a property referred to in subsection 59(3) of the said Act from a person with whom he did not deal at arm's length, the taxpayer shall be deemed to have owned the property on December 31, 1971 and thereafter without interruption until the disposition thereof by him; and
 - (d) for the purposes of section 59 of the said Act, the word "disposition" and the phrase "proceeds of disposition" shall have the meanings assigned by section 54 of that Act.

Alimony and
maintenance
payments paid to
third parties

(42) That where an amount referred to in paragraph 60(b) or (c) of the said Act has been paid pursuant to a decree, order or judgment of a competent tribunal or pursuant to a written agreement, or any variation thereof, that was given or made, as the case may be, after May 6, 1974, by a taxpayer to a person, other than the taxpayer's spouse or former spouse, for the benefit of the spouse or former spouse or a child of the marriage in the custody of the spouse or former spouse, the amount may be deducted in computing the income of the taxpayer for the year.

Deferred pay
for retiring
members of the
Canadian
Forces

(43) That for the 1974 and subsequent taxation years, a retiring member of the Canadian Forces who received deferred pay in a year that was included in computing his income for the year shall be eligible for the deduction provided by paragraph 60(j) of the said Act in respect thereof.

Deduction for
refund of income
payments

- (44) That for the 1974 and subsequent taxation years,
- (a) section 60 of the said Act shall be amended to provide that a deduction shall be allowed to an individual in computing his income for a year in respect of an amount paid to a person with whom he was dealing at arm's length if the following rules are met:
- (i) the amount had been included in computing his income in a previous year as
- (A) a wage or salary,
 - (B) a scholarship, bursary or other amount described in paragraph 56(1)(n) of the said Act, or
 - (C) a research grant described in 56(1)(o) of that Act,
- (ii) at the time such amount was received by him in the previous year, there was a condition stipulated for him to fulfil,

- (iii) he was required to repay the amount because of his failure to fulfil the condition,
- (iv) he did not provide services to the person as an officer or under a contract of employment at or during the time he received the amount in such previous year, and
- (v) he had received the amount for the purpose of furthering his education,

and

- (b) the amount allowed as a deduction in subparagraph (a) hereof shall be included in computing the income for the year of the person to whom it was paid.

Child care
expenses: man
separated pursuant
to court order

- (45) That for the 1974 and subsequent taxation years, a man who at any time in the year was separated from his wife pursuant to a court order shall be eligible to claim child care expenses in accordance with the rules provided in section 63 of that Act.

Exploration
and development
expenses:
successor
corporations and
amalgamation:

(46) That

- (a) for the 1974 and subsequent taxation years,
 - (i) the phrase "principal business corporation" in subsections 66(6) to (9), inclusive, of the said Act shall be deleted and the word "corporation" substituted therefor;
 - (ii) subsections 87(6) and (7) of that Act shall be repealed and subsections 66(6) and (7) of that Act shall be amended so as to apply to an acquisition as a result of an amalgamation, within the meaning assigned by subsection 87(1) of the said Act;

annual payments
for preservation
of Canadian
resource
property:

(iii) an annual payment made by a taxpayer for the preservation of a Canadian resource property, within the meaning assigned by subsection 66(15) of the said Act, or a property that would have been a Canadian resource property if it had been acquired after 1971, shall be considered as part of the taxpayer's Canadian exploration and development expenses, within the meaning assigned by that subsection; and

(iv) subparagraph 66(15)(d)(i) of the said Act shall be repealed;

recoveries of
expenses:

(b) where an amount becomes payable to a taxpayer in a taxation year as the result of a transaction occurring after May 6, 1974,

(i) as consideration for property, other than a resource property, or the rendering of services, the original cost of which to the taxpayer may reasonably be regarded as Canadian or foreign exploration and development expenses, within the meaning assigned by subsection 66(15) of the said Act, or

(ii) as a result of an agreement between the taxpayer and another person to share the cost of Canadian exploration and development expenses,

the amount shall be deducted in computing the taxpayer's Canadian or foreign exploration and development expenses, as the case may be, and where the amount exceeds such of those expenses as are deductible by him in computing his income for the year, the excess shall be included in computing the taxpayer's income for the year; and

foreign
exploration and
development
expenses:
limitation

(c) subsection 66(4) of the said Act shall be amended to restrict a taxpayer, therein referred to, to a taxpayer who is resident in Canada for the relevant taxation year.

Property of
corporation
distributed to
shareholders on
winding-up:
proceeds to
corporation:
cost of
property to
shareholder

(47) That effective after May 6, 1974, subsection 69(5) of the said Act shall be repealed and rules substituted therefor to provide that where in a taxation year of a corporation property of the corporation has been appropriated in any manner whatever to, or for the benefit of, a shareholder on the winding-up of the corporation, the following rules shall apply:

- (a) notwithstanding paragraph 40(2)(e) of that Act, for the purpose of computing the corporation's income for the year, it shall be deemed to have disposed of such property immediately before the winding-up and to have received therefor the fair market value thereof at that time;
- (b) the shareholder shall be deemed to have acquired the property at a cost equal to its fair market value immediately before the winding-up; and
- (c) subsections 52(1), (1.1) and (2) of that Act shall not be applicable for the purposes of determining the cost to a shareholder of the property.

Death of a
taxpayer: rights
and things,
eligible capital
property, resource
properties or
land inventory

(48) That where a taxpayer dies after May 6, 1974, and had at the time of his death rights or things referred to in subsection 70(2) of the said Act, the following rules shall apply:

- (a) where a particular right or thing to which subsection 70(3) of the said Act applies is transferred to a person therein referred to,
 - (i) paragraph 69(1)(c) of that Act shall not apply to the right or thing, and
 - (ii) the person shall be deemed to have acquired the right or thing at a cost equal to the aggregate of:
 - (A) such part of the cost thereof to the taxpayer that had not been deducted by him in computing his income for any year, and
 - (B) expenditures made or incurred by the person to acquire the right or thing;
- (b) for the purposes of section 70 of the said Act, rights or things of the taxpayer shall not include an eligible capital property, a property, right, licence or privilege described in subsection 59(1) or (3) of that Act, and land that is inventory of the taxpayer;
- (c) where the eligible capital property of a business carried on by the taxpayer is acquired by a person, other than a person referred to in subsection 24(2) of the said Act, by virtue of the death of the taxpayer,
 - (i) the rules in subsection 24(1) of that Act shall not apply to the taxpayer,
 - (ii) the taxpayer shall be deemed to have disposed of the eligible capital property of the business immediately before his death for

an amount, that shall be deemed to have become payable to him in respect of a business carried on by him, equal to two times the cumulative eligible capital in respect of the business at that time, and

(iii) the person shall be deemed to have acquired the eligible capital property of the business immediately after the death of the taxpayer at a cost equal to the amount referred to in clause (c)(ii) hereof and where the person continues to carry on the business previously carried on by the taxpayer, the person shall be deemed to have made an outlay or expense, for the purpose of section 14 of the said Act, equal to that cost;

(d) where a particular property, right, licence or privilege described in subsection 59(1) or (3) of the said Act (the "property") was owned by the taxpayer at the time of his death,

(i) for the purposes of those subsections, the taxpayer shall be deemed to have disposed of the property, immediately before his death, and to have received proceeds of disposition therefor equal to the fair market value of the property at that time,

(ii) where the property is a property referred to in subsection 59(3) of the said Act and is acquired, by virtue of the taxpayer's death, by any person who was a person related to the taxpayer immediately before the taxpayer's death,

(A) the person shall be deemed to have acquired the property immediately after the death of the taxpayer at a cost equal to the amount included in the taxpayer's income in respect of the property by virtue of paragraph 59(3)(c) of the said Act, and

(B) upon the subsequent disposition of the property by the person, he shall be deemed, for the purposes of subsection 59(3) of the said Act, to have owned the property on December 31, 1971, and

(iii) where the property was transferred or distributed to a person referred to in paragraph 70(6)(a) or (b) of the said Act, the taxpayer shall be deemed to have disposed of the property, immediately before his death, and to have received proceeds of disposition therefor equal to such amount as is specified by the taxpayer's legal representatives in the return of income of the taxpayer referred to in paragraph 150(1)(b) of that Act not exceeding the fair market value of the property at that time, and

(A) where the property is property referred to in any of paragraphs 59(1)(a) to (c), inclusive, of that Act, the person shall be deemed to have acquired the property for an amount equal to those proceeds, and

- (B) where the property is a property referred to in subsection 59(3) of that Act, the person shall be deemed to have acquired the property immediately after the death of the taxpayer at a cost equal to the amount included in the taxpayer's income in respect of the property by virtue of paragraph 59(3)(c) of that Act and, upon the subsequent disposition of the property by the person, he shall be deemed, for the purposes of subsection 59(3) of the said Act, to have owned the property on December 31, 1971; and
- (e) where land that was included in the inventory of a business carried on by the taxpayer was owned by the taxpayer at the time of his death,
 - (i) the taxpayer shall be deemed to have disposed of the land, immediately before his death, and to have received therefor proceeds of disposition equal to the fair market value of the land at that time, and
 - (ii) where the land was transferred or distributed to a person referred to in paragraph 70(6)(a) or (b) of the said Act, the taxpayer shall be deemed to have disposed of the land, immediately before his death, and to have received proceeds of disposition therefor equal to the cost amount of the land immediately before his death, and the person shall be deemed to have acquired the land for an amount equal to those proceeds.

Trusts for the benefit of a deceased taxpayer's spouse

- (49) That for the 1972 and subsequent taxation years
- (a) subsection 70(6) of the said Act shall be amended to provide
 - (i) that a trust described therein must be resident in Canada immediately after the time at which the property, transferred or distributed to the trust on or after the death of a taxpayer and as a consequence thereof, becomes vested indefeasibly in the trust, and
 - (ii) that the vesting must, within 15 months after the death of the taxpayer or such longer period as is reasonable in the circumstances, be established to have occurred not later than 15 months after the death of the taxpayer; and
 - (b) for the purposes of subsections 70(6) and 104(4) of the said Act, a trust shall be considered to be created by a will if it is created under the terms of the will, by a disclaimer or by an order of a court pursuant to legislation of any province providing for the relief or support of a testator's dependants.

Transfer of farmland and certain property from parent to child where spouse trust interposed

- (50) That where land or depreciable property of a prescribed class in Canada owned at some time by a taxpayer has, after 1971, been used in the business of farming by or on behalf of his spouse under the terms of a trust described in subsection 73(1) or 70(6) of the said Act and upon the death of the spouse, such land or depreciable property of a prescribed class is transferred or distributed to a child of the taxpayer who was resident in Canada immediately before the spouse's death, the trust shall be deemed to have disposed of

- (a) the land for proceeds of disposition equal to the adjusted cost base of the land to the trust immediately before the spouse's death, or
- (b) the depreciable property of a prescribed class for proceeds of disposition equal to the undepreciated capital cost of the property to the trust immediately before the death of the spouse,

and the child shall be deemed to have acquired the land or the depreciable property, as the case may be, at a cost equal to such proceeds of disposition.

Transfers of
property to
spouse or child:
attribution of
loss from
property and
capital loss:
listed personal
property

(51) That,

- (a) where a loss from a property or a property substituted therefor, referred to in subsection 74(1) or 75(1) of the said Act, arises after 1974, such loss shall be deemed to be a loss of the transferor therein referred to, and not of the transferee; and
- (b) where
 - (i) a property that is a transferred property, within the meaning assigned by subsection 74(2) or section 75.1 of that Act, has been disposed of by the transferee after 1974 and an allowable capital loss arises on such disposition, or
 - (ii) the transferred property referred to in subsection 74(2) of the said Act is listed personal property and has been disposed of by the transferee after 1974 and a gain or a loss arises on such disposition,

such gain, allowable capital loss or loss, as the case may be, shall be deemed to be a gain, allowable capital loss or loss of the transferor therein referred to, and not of the transferee.

Certain corporations deemed not to be private corporations

(52) That for the 1972 and subsequent taxation years, a corporation that at any time during a taxation year would be a corporation referred to in paragraph 149(1)(d) of the said Act but for a provision of an Appropriation Act shall be deemed not to be a private corporation for the purposes of Part IV of the said Act.

Bond conversion

(53) That where after May 6, 1974, a bond is exchanged, paragraph 77(a) of the said Act shall be amended to provide that the terms of the bond given up, in exchange for a new bond, must confer upon the holder thereof the right to make the exchange whether or not that right was conferred at the time the bond was issued.

Canadian income of non-resident from operation of ship or aircraft in international traffic

(54) That for the 1974 and subsequent taxation years,

(a) paragraph 81(1)(c) of the said Act shall be amended by deleting the requirement that the ship or aircraft be operated by the non-resident person, and

(b) the words "international traffic" shall be defined to exclude a voyage, the principal purpose of which is to transport goods or passengers between destinations in Canada.

Capital gains
from property
acquired as
personal injury
award

(55) That for the 1972 and subsequent taxation years, any taxable capital gain arising in a year from the disposition of any property of a taxpayer referred to in paragraph 81(1)(g.1) of the said Act shall not be included in computing the income of the taxpayer for the year.

Allowances of
appointed school
board officials

(56) That for the 1974 and subsequent taxation years, where an amount as an allowance referred to in subsection 81(3) of the said Act has been paid to a taxpayer who is an appointed school board member, the allowance shall not be included in computing the income of the taxpayer, subject to the limitation contained in that subsection.

Charitable
trusts: taxable
dividends
received

(57) That for the 1972 and subsequent taxation years, a trust referred to in paragraph 149(1)(h) of the said Act shall be deemed not to be an individual for the purpose of paragraph 82(1)(b) of that Act.

Late-filed
section 83
elections

(58) That where at any particular time after 1973, a dividend referred to in subsection 83(1) or (2) of the said Act became payable by a corporation and the election therein referred to was not made on or before the day required, the election shall be deemed to have been made on the day required, if

(a) the election is made, in the manner and form prescribed, on or before February 28 of the year following the year in which the dividend became payable, and

(b) a penalty is paid by the corporation at the time the election is made equal to the lesser of

- (i) an amount equal to 1% per annum of the amount of the dividend for the period commencing with the day on which the election would otherwise have been required to be made, and ending with the day on which the election was made, and

(ii) \$500.

Transfer of
property to
Canadian
corporation

(59) That with respect to any disposition of property by a taxpayer after May 6, 1974,

- (a) subsection 85(1) of the said Act shall be amended to provide that where the disposition is made by a taxpayer to a Canadian corporation and the property disposed of is capital property (other than real property or an option in respect thereof owned by a non-resident), eligible capital property, inventory other than real property or property referred to in subsection 59(2) of the said Act, and where the taxpayer has received consideration therefor that includes shares in the capital stock of the corporation, the following provisions shall apply:

- (i) subject to paragraphs 85(1)(b) and (c) of the said Act, the agreed amount referred to in paragraph 85(1)(a) of that Act shall, in the case of inventory or capital property (other than depreciable property), not be less than the lesser of

(A) the fair market value of the property, and

(B) the cost amount of the property,

at the time of disposition;

(ii) the rules in paragraphs 85(1)(d) and (e) of the said Act

(A) shall be subject to paragraphs 85(1)(b) and (c) of the said Act, and

(B) where more than one property is included in the disposition, shall be applied as if each such property was disposed of separately in the order designated by the taxpayer within the time specified for the filing of an election under subsection 85(1) of the said Act in respect of the property so disposed of, or failing such designation, in the order designated by the Minister;

(iii) where the fair market value of the property at the time of the disposition exceeds the greater of

(A) the fair market value at the time of the disposition of the consideration received by the taxpayer for the property disposed of by him, and

(B) the amount that the taxpayer and the corporation have agreed upon in their election in respect of the property, determined without reference to this subparagraph,

and it is reasonable to regard any portion of such excess as a gift made by the taxpayer to or for the benefit of any other shareholder of the corporation, the amount that the taxpayer and the corporation have agreed upon in their election in respect of the property shall, except for the purposes of paragraphs 85(1)(g) and (h) of that Act, be deemed to be the aggregate of

(C) the amount referred to under subclause (B) hereof, and

(D) the portion of such excess that may reasonably be regarded as a gift made by the taxpayer to or for the benefit of any other shareholder of the corporation; and

(iv) where any of the property so disposed of is taxable Canadian property of the taxpayer, all of the shares of the capital stock of the Canadian corporation received by him as consideration therefor shall be deemed to be taxable Canadian property of the taxpayer;

(b) subsections 85(2) and (2.1) of the said Act shall be repealed and rules substituted therefor to provide that where the disposition is made by a partnership to a Canadian corporation and the property disposed of is partnership property that is capital property (other than real property or an interest therein owned by a partnership that is not a Canadian partnership), eligible capital property, inventory other than real property or property referred to in subsection 59(2) of that Act, the rules in

subsections 85(1) and (1.1) of the said Act and subparagraph (a) hereof shall be applicable in respect of the disposition mutatis mutandis, as if the partnership was a taxpayer resident in Canada that had disposed of property to the corporation;

- (c) paragraph 85(1)(i) and subsection 85(4) of the said Act shall be repealed; and
- (d) where a taxpayer or a partnership (the "taxpayer") disposed of any capital property to a corporation that, immediately after the disposition, was controlled, directly or indirectly, in any manner whatever by the taxpayer, by the spouse of the taxpayer or by a person or group of persons by whom the taxpayer was controlled directly or indirectly in any manner whatever, and, but for this provision, the taxpayer would have had a capital loss therefrom or a deduction pursuant to paragraph 24(1)(a) of the said Act in computing his income for his taxation year in which he ceased to carry on a business, the following rules shall apply:
 - (i) notwithstanding paragraphs 24(1)(a) and 40(2)(e) of the said Act, his capital loss therefrom or his deduction, pursuant to paragraph 24(1)(a) of the said Act in computing his income for his taxation year in which he ceased to carry on the business, otherwise determined, shall be deemed to be nil, and

(ii) where, immediately after the disposition, the taxpayer owned any shares of any class of the capital stock of the corporation, in computing the adjusted cost base to him of all shares of any particular class of the capital stock of the corporation owned by him immediately after the disposition, there shall be added

(A) in the case of capital property, the amount, and

(B) in the case of eligible capital property, twice the amount

equal to that proportion of the amount, if any, by which the cost amount to him, immediately before the disposition, of the property so disposed of exceeds his proceeds of disposition that

(C) the fair market value, immediately after the disposition, of all shares of that class so owned by him,

is of

(D) the fair market value, immediately after the disposition, of all shares of the capital stock of the corporation so owned by him.

Late-filed
section 85
elections

(60) That for the 1972 and subsequent taxation years,

(a) any election under subsection 85(1) or (2) of the said Act shall be made on or before the day (the

"day") that is the earlier or earliest, as the case may be, of the days on or before which any taxpayer making the election is required to file a return of income for the taxation year in which the transaction to which the election relates occurred, and

- (b) where the election referred to in subparagraph (a) hereof was not made on or before the day and that day is after May 6, 1974, the election shall be deemed to have been made on that day if
 - (i) the election is made in prescribed form on or before a day that is one year after the day, and
 - (ii) a penalty is paid at the time the election is made
 - (A) by the taxpayer referred to in subsection 85(1) of the said Act equal to $\frac{1}{4}$ of 1% of the amount by which the fair market value of the property disposed of by the taxpayer at the time of disposition exceeds the amount agreed upon by the taxpayer and the corporation in the election, or
 - (B) by the partnership referred to in subsection 85(2) of the said Act equal to $\frac{1}{4}$ of 1% of the amount by which the fair market value of the property disposed of by the partnership at the time of disposition exceeds the amount agreed upon by the partnership and the corporation in the election,

for each month or part thereof that the election has not been made during the period commencing with the day and ending at the time the election is made.

Share for share
exchange

- (61) That where after May 6, 1974, a taxpayer acquires shares of the capital stock of a particular Canadian corporation, within the meaning assigned by subsection 89(1) of the said Act, in exchange for capital properties of the taxpayer that were shares of the capital stock of another corporation (the "exchanged shares") and
- (a) the taxpayer and the particular Canadian corporation were dealing with each other at arm's length immediately before the exchange,
 - (b) the taxpayer, persons with whom he does not deal at arm's length, or the taxpayer together with persons with whom he does not deal at arm's length, do not control, either directly or indirectly in any manner whatever, the particular Canadian corporation immediately after the exchange,
 - (c) no election is filed by the taxpayer and the particular Canadian corporation with respect to the exchange, pursuant to the provisions of subsection 85(1) or (2) of the said Act, and
 - (d) no consideration is received by the taxpayer for the exchanged shares other than shares of one class of the capital stock of the particular Canadian corporation,

the following rules shall apply:

(e) provided that the taxpayer does not, in computing his capital gain or loss from the disposition of the exchanged shares, include proceeds of disposition in respect of the exchanged shares equal to the fair market value thereof immediately prior to the exchange, the taxpayer shall be deemed

(i) to have disposed of the exchanged shares for proceeds equal to their adjusted cost base to him immediately before the exchange, and

(ii) to have acquired the shares of the particular Canadian corporation at a cost equal to the adjusted cost base to him of the exchanged shares immediately before the exchange, and

where the exchanged shares were taxable Canadian property of the taxpayer, the shares of the particular Canadian corporation so acquired by him shall be deemed to be taxable Canadian property of the taxpayer; and

(f) the cost of any of the shares of the other corporation to the particular Canadian corporation, at any particular time up to and including the time it disposes of those shares, shall be deemed to be,

(i) the fair market value thereof immediately before the exchange if at the particular time or at any earlier time after the time of exchange, the particular Canadian corporation owned shares of the capital stock of the other corporation

(A) to which are attached, not less than 10 per cent of all votes that could then be cast for any and all purposes by holders of all shares of the other corporation, and

(B) which represent not less than 10 per cent of the fair market value of all issued and outstanding shares of the other corporation, and

(ii) in any other case, nil.

Exchange of shares by a shareholder in course of reorganization of capital

(62) That with respect to a reorganization of the capital of a corporation that occurs after May 6, 1974, section 86 of the said Act shall be repealed and the following rules substituted therefor:

(a) where, at a particular time that is after May 6, 1974, in the course of a reorganization of the capital of a corporation, a taxpayer has exchanged capital property that was all the shares of any particular class of the capital stock of the corporation that were owned by him at that time (the "old shares"), in return for consideration that includes other shares of the corporation (the "new shares"), the following rules shall apply:

(i) the cost to the taxpayer of any property (other than shares of the capital stock of the corporation or a right to receive any such shares) receivable by him as consideration for the old shares shall be deemed to be its fair market value at the time of the exchange;

(ii) the cost to the taxpayer of any new shares of any class of the capital stock of the corporation receivable by him as consideration for the old shares shall be deemed to be that proportion of the amount, if any, by which the adjusted cost base to him, immediately before the exchange, of the old shares exceeds the fair market value of the consideration for the old shares (other than shares of the capital stock of the corporation or a right to receive any such shares) receivable by him from the corporation, that

(A) the fair market value, immediately after the exchange, of those new shares of that class,

is of

(B) the fair market value, immediately after the exchange, of all new shares of the capital stock of the corporation receivable by him as consideration for the old shares; and

(iii) the taxpayer shall be deemed to have disposed of the old shares at the time of the exchange for proceeds of disposition equal to the amount of money, if any, plus the cost to him of the new shares and other property receivable by him as consideration for the old shares, and

(b) this provision shall not be applicable to any case where section 51 or any of subsections 85(1) to (3) of the said Act is applicable.

Amalgamations

(63) That with respect to an amalgamation, within the meaning assigned by section 87 of the said Act, that occurs after May 6, 1974, the said section shall be amended as follows:

- (a) subsection 87(1) of the said Act shall be amended so that
 - (i) properties of a predecessor corporation that are amounts receivable from another predecessor corporation or investments in the shares of another predecessor corporation, and
 - (ii) liabilities of a predecessor corporation that are amounts payable to another predecessor corporation

shall not be required to become properties or liabilities, as the case may be, of the new corporation by virtue of the merger;

- (b) paragraph 87(1)(c) thereof shall require that all the shareholders of the predecessor corporations (except any predecessor corporation) immediately before the merger receive shares of the new corporation by virtue of the merger;
- (c) subparagraphs 87(2)(c)(i) and (ii) thereof shall, for the purposes of computing the income of the new corporation for a taxation year from a business or property, apply to all amounts received or paid, as the case may be, by the new corporation;
- (d) paragraph 87(2)(r) thereof shall be amended so that the rule therein shall also apply to the computation of the new corporation's paid-up capital deficiency at any time after the amalgamation and the reference in that paragraph to "subparagraphs 89(1)(1)(i) to (iv)" shall be read as "paragraph 89(1)(1)(iv);

- (e) paragraph 87(2)(s) thereof shall be amended so that the rule therein shall also apply to the computation of the new corporation's 1971 capital surplus on hand at any time after the amalgamation and the reference in that paragraph to "subparagraphs 89(1)(d)(i) to (iv)" shall be read as "subparagraph 89(1)(d) (iii)";
- (f) a rule shall be added so that the amount, if any, by which the paid-up capital of the new corporation immediately after the amalgamation exceeds the aggregate of the paid-up capital in respect of each share of the capital stock of a predecessor corporation (other than a share held by another predecessor corporation) immediately before the amalgamation shall, for the purposes of computing the 1971 capital surplus on hand or the paid-up capital deficiency of the new corporation, be added to the aggregate of amounts determined under subparagraph (69)(d) of this Motion,
- (g) paragraphs 87(2)(z.1) and (aa) thereof shall be amended to apply only to a new corporation that has been a private corporation continuously from the amalgamation until the time of computation of its capital dividend account or refundable dividend tax on hand, as the case may be;
- (h) the reference in paragraph 87(3)(a) thereof to "subparagraphs 89(1)(d)(i) to (iv)" shall be read as "subparagraph 89(1)(d)(iii)";
- (i) subsection 87(4) thereof shall be amended to provide that for the purposes of computing the income of a shareholder (except any predecessor corporation) who owned, immediately before the amalgamation,

capital properties that were shares of the capital stock of a predecessor corporation and received no consideration for the disposition of those shares on the amalgamation other than shares of the new corporation,

(i) the shareholder shall be deemed to have disposed of his shares of the capital stock of the predecessor corporation on the amalgamation for proceeds equal to the adjusted cost base to him of those shares immediately before the amalgamation, and

(ii) the shareholder shall be deemed to have acquired the shares of any particular class of the capital stock of the new corporation at a cost equal to that proportion of the proceeds described in clause (i) hereof that

(A) the fair market value, immediately after the amalgamation, of all the shares of that particular class so acquired by him

is of

(B) the fair market value, immediately after the amalgamation, of all the shares of the new corporation so acquired by him as consideration for the disposition of the shares described in clause (i) hereof, and

where the shares of the predecessor corporation owned by the shareholder were taxable Canadian property of the shareholder, the shares of the new corporation received by him

shall be deemed to be taxable Canadian property of the shareholder;

- (j) a rule shall be added so that for the purposes of computing the income of a taxpayer who owned, immediately before the amalgamation, a capital property that was an option (the "old option") to acquire shares of a predecessor corporation and who received no consideration for the disposition of the old option on the amalgamation other than an option (the "new option") to acquire shares of the new corporation,
 - (i) the taxpayer shall be deemed to have disposed of the old option on the amalgamation for proceeds equal to the adjusted cost base to him of that option immediately before the amalgamation, and
 - (ii) the taxpayer shall be deemed to have acquired the new option at a cost equal to the proceeds of disposition of the old option, and

where the old option of the taxpayer was taxable Canadian property of the taxpayer, the new option received by the taxpayer shall be deemed to be taxable Canadian property of the taxpayer; and

- (k) a rule shall be added so that for the purposes of computing the income of a taxpayer who owned, immediately before the amalgamation, a capital property that was a bond, debenture, note, mortgage or other similar obligation of a predecessor corporation (the "old property") and who received no consideration for the disposition of the old property on the amalgamation other than a

bond, debenture, note, mortgage or other similar obligation, respectively, of the new corporation (the "new property"), provided that the amount payable to the holder of the new property on its maturity is the same amount that would have been payable to the holder of the old property on its maturity,

(i) the taxpayer shall be deemed to have disposed of the old property on the amalgamation for proceeds equal to the adjusted cost base to him of the old property immediately before the amalgamation, and

(ii) the taxpayer shall be deemed to have acquired the new property at a cost equal to the proceeds of disposition of the old property.

Amalgamations: non-resident-owned investment corporation:

(64) That with respect to an amalgamation, within the meaning assigned by section 87 of the said Act, that occurred after 1971, rules shall be added to that section to provide that

(a) where a predecessor corporation was a non-resident-owned investment corporation and had, immediately before the amalgamation, cumulative taxable income or an amount in its capital gains dividend account, such cumulative taxable income or amount shall be added to the cumulative taxable income and the capital gains dividend account, respectively, of the new corporation that is a non-resident-owned investment corporation; and

depreciable property other than property of a prescribed class

(b) depreciable property (other than property of a prescribed class) of a predecessor corporation shall be deemed to have been acquired by the new corporation before 1972 at the

actual cost thereof to the predecessor corporation, and the undepreciated capital cost thereof to the new corporation shall be deemed to be the undepreciated capital cost thereof of the predecessor corporation immediately before the amalgamation.

Winding-up of wholly-owned Canadian corporation

(65) That where a Canadian corporation referred to in subsection 88(1) of the said Act (the "subsidiary") has been wound up after May 6, 1974, and all of the issued shares of the capital stock of the subsidiary were, immediately before the winding-up, owned by another Canadian corporation (the "parent"), the following rules shall apply:

- (a) paragraph 88(1)(a) of the said Act
 - (i) shall not apply for the purposes of subparagraphs 89(1)(1)(ii) and (vii) of that Act, and
 - (ii) shall be amended to provide that the proceeds of disposition of the subsidiary, from the disposition of property that is eligible capital property, shall be an amount equal to twice the cost amount thereof to the subsidiary immediately before the winding-up;
- (b) subparagraph 88(1)(d)(i) of the said Act shall be amended so that the amount therein determined shall be the amount by which the aggregate of amounts referred to in clause (A) thereof exceeds the aggregate of amounts referred to in clause (B) thereof plus the amount of any reserve (other than a reserve referred to in paragraph 20(1)(n) or subparagraph 40(1)(a)(iii) of the said Act) deducted in computing the subsidiary's income for its taxation

year during which its assets were distributed to the parent on the winding-up;

- (c) subsections 84(2) and 88(2) of the said Act and section 21 of the Income Tax Application Rules, 1971, shall not apply;
- (d) paragraph 88(1)(e) of the said Act shall be repealed and a rule substituted therefor to provide that, for the purposes of Parts VII and VIII of the said Act, the subsidiary shall be deemed to have paid and the parent shall be deemed to have received a dividend on the shares of the capital stock of the subsidiary equal to the amount that would be the designated surplus of the subsidiary with respect to the parent corporation that would have been determined under paragraph 192(13)(b) of that Act if control of the subsidiary had been acquired by the parent immediately before the winding-up of the subsidiary and the taxation year of the subsidiary which included that time had ended immediately before that time;
- (e) the subsidiary shall, for the purposes of computing its income for its taxation year during which its assets were transferred to the parent on the winding-up, be permitted to claim any reserve that would have been allowed under paragraphs 20(1)(1), (m) and (n) and subparagraph 40(1)(a)(iii) of the said Act if the assets had not been transferred to the parent on the winding-up and no amount shall be included by virtue of paragraphs 12(1)(d) and (e) or subparagraph 40(1)(a)(ii) of that Act in computing the income of the subsidiary for its taxation year, if any, following the year in

which its assets were transferred to the parent;

(f) the provisions of paragraphs 87(2)(c), (g), (h), (i), (j), (k), (l), (m), (n), (o), (p), (q), (r), (s), (t), (u), (v), (x), (z), (z.1), (cc), (ee) and (jj) of the said Act shall apply to the winding-up as if:

(i) the references therein to

- (A) "amalgamation" were read as "winding-up",
- (B) "predecessor corporation" were read as "subsidiary",
- (C) "new corporation" were read as "parent",
- (D) "its first taxation year" were read as "its taxation year during which it received the assets of the subsidiary on the winding-up",
- (E) "its last taxation year" were read as "its taxation year during which its assets were distributed to the parent on the winding up",
- (F) "predecessor corporation's gain" were read as "subsidiary's gain",
- (G) "predecessor corporation's income" were read as "subsidiary's income",
- (H) "new corporation's income" were read as "parent's income",
- (I) "predecessor corporation's foreign tax carryover"

were read as "subsidiary's foreign tax carryover",

(J) "any predecessor private corporation" were read as "the subsidiary (if the subsidiary was a private corporation at the time of the winding-up)", and

(K) "predecessor corporation's capital dividend account" were read as "subsidiary's capital dividend account", and

(ii) the subsidiary's taxation year during which its assets were transferred to the parent on the winding-up had ended immediately before that time;

(g) for the purposes of computing the cumulative deduction account, within the meaning assigned by subsection 125(6) of the said Act, of the parent at the end of its taxation year during which the subsidiary was wound up and any subsequent taxation year, there shall be added to the amount determined under paragraph (b) thereof from which the aggregate of the amounts referred to in subparagraphs (iii) and (iv) thereof are to be subtracted, an amount equal to the amount of the subsidiary's cumulative deduction account at the end of its taxation year during which it was wound up;

(h) for the purpose of computing the 1971 undistributed income on hand of the parent at any time after the winding-up, where the subsidiary had 1971 undistributed income on hand immediately before the winding-up, the amount thereof shall (except for the purpose of determining the designated surplus of the parent at

any time) be added to the aggregate of the amounts determined under paragraphs 196(4)(a) to (c), inclusive, of the said Act); and

(i) for the purpose of computing the refundable dividend tax on hand (within the meaning assigned by subsection 129(3) of the said Act) of the parent at the end of any taxation year after its taxation year during which the subsidiary was wound up, the amount, if any, by which

(i) the subsidiary's refundable dividend tax on hand at the end of its taxation year during which it was wound up

exceeds

(ii) the subsidiary's dividend refund (within the meaning assigned by subsection 129(1) of that Act) for its taxation year referred to in clause (i) hereof

shall, if the parent has been a private corporation continuously from the time of the winding-up to the end of the taxation year, be added to the aggregate determined under subsection 129(3) of that Act from which the parent's dividend refunds are to be subtracted.

Capital dividend
account of
corporations

(66) That for the 1972 and subsequent taxation years, the definition of the capital dividend account of a corporation in paragraph 89(1)(b) of the said Act shall be amended by repealing subparagraph (i) thereof and substituting a rule therefor to include therein, at any particular time, $\frac{1}{2}$ of the amount, if any, by which

(a) the aggregate of the capital gains of the corporation for the period commencing with the beginning of the

first taxation year commencing after the time the corporation last became a private corporation and ending after 1971, and ending immediately before the particular time

exceeds

(b) the aggregate of its capital losses for that period.

Paid-up capital

(67) That the paid-up capital of a corporation at any time after May 6, 1974 and at the end of its 1971 taxation year shall mean

(a) in respect of a share of any class of the capital stock of a corporation, an amount equal to the paid-up capital at that time in respect of the class of shares of the capital stock of the corporation to which that share belongs, divided by the number of issued shares of that class outstanding at that time;

(b) in respect of a class of shares of the capital stock of a corporation, the amount, if any, by which the aggregate of

(i) the amount of the paid-up capital of that class of shares at that time, determined without reference to this paragraph,

(ii) all amounts each of which is an amount in respect of the issue of any share of that class by the corporation before that time equal to the amount, if any, by which

(A) the fair market value, at the time that share was issued, of the consideration received by the corporation for the issue of that share

exceeds

(B) the increase in the amount referred to in clause (i) hereof by virtue of the issue of that share, and

(iii) all amounts each of which is that portion of a contribution of tangible property to the corporation by a holder of a share of that class that cannot reasonably be regarded as a gift made to or for the benefit of any other shareholder of the corporation, but only to the extent that such amount is not otherwise included in the paid-up capital in respect of that or any other class of shares of the capital stock of the corporation,

exceeds

(iv) all amounts each of which is an amount in respect of the redemption, acquisition or cancellation in any manner whatever of a share of that class by the corporation equal to the amount, if any, by which

(A) the paid-up capital in respect of that share immediately before such redemption, acquisition or cancellation

exceeds

(B) the reduction in the amount referred to in clause (i) hereof by virtue of such redemption, acquisition or cancellation; and

- (c) in respect of all the shares of the capital stock of a corporation, an amount equal to the aggregate of all amounts each of which is an amount equal to the paid-up capital in respect of a class of shares of the capital stock of the corporation at that time.

Reduction in paid-up
capital

- (68) That where a corporation has made an election under subsection 83(1) of the said Act in respect of a dividend on a particular class of shares of the capital stock of the corporation that has become payable, or was paid if that time was earlier, after 1971 but before May 7, 1974, and

- (a) the portion of the dividend that was payable out of the corporation's 1971 capital surplus on hand, pursuant to paragraph 83(1)(b) of the said Act, as it read at the time the dividend became payable, or was paid if that time was earlier,

exceeds

- (b) the portion of the dividend that would have been payable out of the corporation's 1971 capital surplus on hand, if the said Act were read without reference to this paragraph, but with reference to paragraph (67) of this Motion,

notwithstanding any other provision of the said Act, the paid-up capital in respect of the particular class of shares, at the end of the corporation's 1971 taxation year and at any time after 1971, shall be reduced by the excess of the amount referred to in subparagraph (a) hereof over the amount referred to in subparagraph (b) hereof.

Paid-up capital
deficiency

- (69) That in computing the paid-up capital deficiency of a corporation at any particular time after May 6, 1974, paragraph 89(1)(d) of the said Act shall be amended as follows:
- (a) the reference in subparagraph (i) thereof to subparagraph 89(1)(1)(vi) of the said Act shall be read as a reference to that subparagraph as amended by subparagraph (72)(e) of this Motion;
 - (b) the reference in subparagraph (ii) thereof to subparagraph 89(1)(1)(vii) of the said Act shall be read as a reference to that subparagraph as amended by subparagraphs (72)(a) and (b) of this Motion;
 - (c) subparagraphs (iii) and (iv) thereof shall be repealed;
 - (d) the following amounts shall be added in determining the paid-up capital deficiency of the corporation:
 - (i) all amounts referred to in paragraph 89(1)(1)(ix) of the said Act;
 - (ii) all amounts each of which is an amount equal to the paid-up capital at the particular time in respect of a share of the capital stock of the corporation issued after 1971 that was received by a person described in subsection 35(1) of the said Act if that person, together with other persons with whom he does not deal at arm's length, directly or indirectly in any manner whatever controlled the corporation at the particular time; and
 - (iii) where before the particular time the corporation issued any

shares of its capital stock as consideration for the purchase of shares of a second corporation and at any time, before the particular time,

(A) a particular individual

1. controlled the second corporation directly or indirectly in any manner whatever, or
2. beneficially owned shares of the capital stock of the second corporation representing over 50% of paid-up capital, and

(B) the particular individual referred to in subclause (A) hereof either

1. controlled the corporation directly or indirectly in any manner whatever, or
2. beneficially owned shares of the capital stock of the corporation representing over 50% of its paid-up capital,

all amounts each of which is an amount equal to the lesser of

(C) subject to the rule referred to in paragraph (70) of this Motion, all amounts each of which is an amount equal to the paid-up capital, immediately after its issue, of each share so issued (on the assumption that paragraph (67) of this Motion applied at any time), and

(D) the amount, if any, by which the aggregate of all amounts each of which is an amount equal to the paid-up capital, immediately after its issue, of each share so issued (on the assumption that paragraph (67) of this Motion applied at any time) and the fair market value at the time of purchase of any other consideration given by the corporation for the purchase of the shares of the second corporation, exceeds the lesser of

1. such amount as the corporation can substantiate as the paid-up capital limit of the second corporation at the particular time, and
2. all amounts each of which is the amount that the corporation can substantiate as the paid-up capital, at the time of purchase, of each share of the second corporation so purchased;

- (e) the reference in subparagraph (vi) thereof to subparagraph 89(1)(1)(ii) of the said Act shall be read as a reference to that subparagraph as amended by subparagraphs (72)(a) and (b) of this Motion;
- (f) the reference in subparagraph (vi) thereof to subparagraph 89(1)(1)(iv.1) of the said Act shall be read as a reference to that subparagraph as amended by subparagraph (72)(c) of this Motion;
- (g) there shall be deducted in determining the paid-up capital deficiency of the corporation all amounts determined in respect of the corporation at the particular time by

virtue of the amendments referred to in clauses (72)(d)(i), (ii), (iii), (iv) and (v) of this Motion; and

(h) the reference in subparagraph (ix) thereof to "paragraph 111(1)(a)" shall be amended to refer to "paragraphs 111(1)(a) or (c)".

Special reduction
of paid-up capital
deficiency

(70) That where the amendment proposed in clause (69)(d)(iii) of this Motion applies to the issue, on or before May 6, 1974, of any share of the capital stock of a corporation, the paid-up capital in respect of the share, at any time shall, for the purposes of subclause (69)(d)(iii)(C) of this Motion, be deemed to be the paid-up capital in respect thereof that would be determined if the paid-up capital at that time, in respect of the class of shares to which that share belonged, was equal to the amount that would be determined under clause (67)(b)(ii) of this Motion in respect of that class of shares at that time.

1971 capital
surplus on hand:
depreciable
property acquired
before 1949

(71) That for the 1972 and subsequent taxation years, for the purposes of subparagraphs 89(1)(1)(ii) and (iii) of the said Act, the actual cost of depreciable property that was acquired by a corporation before the commencement of its 1949 taxation year that is capital property referred to in those subparagraphs shall be deemed to be the capital cost of such property, within the meaning assigned by section 144 of the said Act as it read in its application to the 1971 taxation year.

1971 capital
surplus on hand

(72) That in computing the 1971 capital surplus on hand of a corporation at any particular time after May 6, 1974, paragraph 89(1)(1) of the said Act shall be amended as follows:

(a) subparagraphs (ii) and (vii) thereof shall be read subject to the amend-

ment in paragraph (73) of this Motion;

(b) the computation of an amount under subparagraphs (ii) and (vii) thereof shall be made as if

(i) the property exchanged (the "old property"), pursuant to any of sections 51 (subject to the amendment in paragraph (33) of this Motion), 86 (subject to the amendment in paragraph (62) of this Motion), 87 (subject to the amendment in paragraph (63) of this Motion) and 77 of the said Act (subject to the amendment in paragraph (53) of this Motion), and paragraph (61) of this Motion, had not been disposed of by the taxpayer but had been altered in form only and had continued in existence in the form of the property received by virtue of the exchange (the "new property"), and

(ii) the new property had not been acquired by the taxpayer by virtue of the exchange, but had been in existence prior thereto in the form of the old property that was altered, in form only, by virtue of the exchange;

(c) the amount determined under clause (iv.1)(B) thereof shall be an amount equal to the aggregate of

(i) the eligible capital amount, and

(ii) where the amount in respect of an eligible capital amount is received as consideration for the disposition of, or for allowing the expiry of a government right, such amount

as is included in respect thereof in the tax equity of the corporation at the end of its 1971 taxation year by virtue of subparagraph 89(1)(h)(ii.1) of the said Act;

(d) the following amounts shall be added in determining the 1971 capital surplus on hand of the corporation:

(i) all amounts each of which is an amount that became payable to the corporation after the end of its 1971 taxation year and before 1972 in respect of a property, owned by it at the end of its 1971 taxation year or acquired by it thereafter and disposed of by it before 1972, that would have been eligible capital property if it had been disposed of after 1971, equal to the amount, if any, by which the amount that became payable exceeds any amount included in respect of that property in the tax equity of the corporation at the end of its 1971 taxation year by virtue of subparagraph 89(1)(h)(ii.1) of the said Act;

(ii) all amounts, each of which is an amount equal to the amount, if any, by which

(A) the amount receivable by the corporation in respect of the disposition after 1971 of a property owned by the corporation on December 31, 1971 that is a property referred to in paragraph 59(3)(a) or (b) of the said Act

exceeds

- (B) the relevant percentage, as defined in subsection 59(4) of that Act, of the amount receivable described in subclause (A) hereof;
- (iii) all amounts each of which is an amount receivable in respect of a property referred to in paragraph 59(3)(a) or (b) of the said Act owned by the corporation at the end of its 1971 taxation year or acquired by it thereafter and disposed of by it before 1972;
- (iv) all amounts each of which is an amount deducted by virtue of paragraph 29(1)(b) or 29(2)(b) of the said Act in computing the income of the corporation for a taxation year ending before the particular time;
- (v) the amount, if any, by which
 - (A) the proceeds of any life insurance policy received by the corporation after the end of its 1971 taxation year and before 1972 in consequence of the death of any person whose life was insured under the policy,
exceeds
 - (B) the aggregate of
 - 1. all amounts included in the tax equity of that corporation at the end of its 1971 taxation year in respect of the policy, and

2. all amounts paid as or on account of premiums paid under the policy by that corporation after the end of its 1971 taxation year and before 1972; and

- (vi) all amounts determined under subparagraphs 89(1)(d)(vii), (viii) and (x) of the said Act in respect of the corporation at the particular time;
- (e) the amount referred to in subparagraph (vi) thereof shall be computed as if no amount were allowed as a deduction under subparagraph 82(1)(a) (ii) of the said Act, as it read in its application to the 1971 taxation year, that was not deductible in computing the corporation's income for the 1971 or any previous taxation year for the purposes of Part I of the said Act as it read in its application to that year, but would have been deductible in computing its income for the 1971 taxation year if the said Act as it read in its application to that year had been read without reference to any restriction on the quantum of any deduction thereunder; and
- (f) there shall be deducted in determining the 1971 capital surplus on hand of the corporation all amounts determined under clauses (69)(d)(ii) and (iii) of this Motion in respect of the corporation at the particular time.

Special rules concerning 1971 capital surplus on hand and paid-up capital deficiency

- (73) That in computing the 1971 capital surplus on hand or the paid-up capital deficiency of a corporation at any particular time after May 6, 1974, the following rules shall apply:
- (a) the amount referred to in subparagraphs 89(1)(1)(ii) and (vii) of the said Act (subject to the amendment in subparagraphs (72)(a) and (b) of this Motion) shall be deemed to be nil where the property disposed of is
 - (i) a share of the capital stock of a subsidiary corporation referred to in subsection 88(1) of the said Act that was disposed of on the winding-up of the subsidiary where that winding-up commenced after May 29, 1973;
 - (ii) a share of the capital stock of another corporation that was controlled, within the meaning assigned by subsection 186(2) of the said Act, by the corporation and that was disposed of by the corporation after 1971 to a person with whom the corporation was not dealing at arm's length immediately after the disposition, other than a disposition referred to in clauses (a)(i) or (iii) or subparagraph (b) hereof, or

- (iii) subject to subsection 26(21) of the Income Tax Application Rules, 1971, a share of the capital stock of a particular corporation that was disposed of by the corporation after May 6, 1974, by virtue of an amalgamation, within the meaning assigned by subsection 87(1) of the said Act, where the corporation controlled, within the meaning assigned by subsection 186(2) of the said Act, both the particular corporation immediately prior to the amalgamation and the new corporation immediately after the amalgamation; and

- (b) where another corporation that is a Canadian corporation owned a capital property on December 31, 1971 and subsequently disposed of it to the corporation in a transaction to which section 85 of the said Act applied, the other corporation shall be deemed not to have disposed of that property by virtue of the transaction and the corporation shall be deemed to have owned that property on December 31, 1971 and to have acquired it at an actual cost equal to the actual cost of that property to the other corporation.

Shareholders of corporations not resident in Canada: foreign accrual property income

(74) That for the 1972 and subsequent taxation years, the rules contained in subdivision i of Part I of the said Act, together with other rules as hereinafter referred to, shall be amended so that:

(a) subsections 90(2) and (3) of the said Act shall be repealed;

(b) section 91 of the said Act shall be repealed and rules substituted therefor to provide that:

(i) in computing the income for a taxation year of a taxpayer resident in Canada, there shall be included, in respect of each share owned by him of the capital stock of a controlled foreign affiliate of the taxpayer, as income from the share, the percentage of the foreign accrual property income of any controlled foreign affiliate of the taxpayer, for each taxation year of the affiliate ending in the taxation year of the taxpayer, equal to that share's participating percentage in respect of the affiliate, determined at the end of the appropriate taxation year of the affiliate;

(ii) where an amount in respect of a share has been included in computing the income of a taxpayer for a taxation year by virtue of clause (b)(i) hereof and the Minister is satisfied that, by reason of the operation of monetary or exchange restrictions of a country other than Canada, the inclusion of the whole amount with no deduction for a reserve in respect thereof would impose undue hardship on the taxpayer, there may be

deducted in computing the taxpayer's income for the year such amount as a reserve in respect of the amount so included as the Minister deems reasonable in the circumstances;

- (iii) in computing the income of a taxpayer for a taxation year, there shall be included each amount in respect of a share that was deducted by virtue of clause (b)(ii) hereof in computing his income for the immediately preceding year;
- (iv) where an amount in respect of a share has been included in computing the income of a taxpayer for a taxation year or for any of the immediately preceding 5 taxation years (the "income amount") by virtue of clause (b)(i) hereof, there may be deducted in computing the taxpayer's income for the year the lesser of

(A) the product obtained when

- 1. the aggregate of
 - I. the non-business-income tax paid by the taxpayer, and
 - II. the foreign accrual tax

applicable to the income amount to the extent that an amount in respect of such tax was not deductible under this subsection in any previous year

is multiplied by

2. the relevant tax factor; and

(B) the amount, if any, by which the income amount exceeds the aggregate of the amounts in respect of that share, deductible under this subsection in any of the immediately preceding 5 taxation years in respect of the income amount;

(v) where in a taxation year a taxpayer resident in Canada has received a dividend on a share of the capital stock of a corporation that was at any time a controlled foreign affiliate of the taxpayer, there may be deducted, in respect of such portion of the dividend as is prescribed to have been paid out of the taxable surplus of the affiliate, in computing the taxpayer's income for the year, the lesser of

(A) the amount by which that portion of the dividend exceeds the amount, if any, deductible in respect thereof under subclause (n)(i)(B) hereof, and

(B) the amount, if any, by which

1. the aggregate of amounts required by clause (c)(i) hereof to be added in computing the adjusted cost base to him of the share before the dividend was so received by him

exceeds

2. the aggregate of all amounts each of which is

I. an amount required by clause (c)(ii) hereof to be deducted in computing the adjusted cost base to him of the share before the dividend was so received by him, or

II. an amount deductible by him under clause (iv) hereof in respect of any non-business-income tax applicable to that portion of the dividend so received by him;

(c) subsection 92(1) of the said Act shall be repealed and a rule substituted therefor to provide that in computing, at any time in a taxation year, the adjusted cost base to a taxpayer resident in Canada of any share owned by him of the capital stock of a foreign affiliate of the taxpayer

(i) there shall be added any amount required to be included in respect of that share by virtue of clauses (b)(i) and (iii) hereof in computing his income for the year or any preceding taxation year (or that would have been so required to be included but for sections 74 and 75 of that Act), and

(ii) there shall be deducted in respect of that share any amount deducted by him

(A) by virtue of clauses (b)(ii) and (iv) hereof, and

(B) by virtue of clause (b)(v) hereof, in respect of a dividend received by him before that time,

in computing his income for the year or any preceding taxation year (or that would have been deductible by him but for sections 74 and 75 of that Act);

(d) that part of subsection 92(2) of the said Act following paragraph (b) thereof and preceding paragraph (d) thereof shall be repealed and a rule substituted therefor to provide that there shall be deducted, in respect of any dividend received on the share referred to in paragraph 92(2)(a) or (b) of that Act, whichever is appropriate, before the relevant time by the owner of the share, an amount equal to the amount, if any, by which such portion of the amount of the dividend so received as was deductible under subclause (n)(i)(C) hereof from the income of the owner for the year in computing his taxable income for the year or as would have been so deductible if the owner had been a corporation resident in Canada, exceeds the portion referred to in paragraph 92(2)(d) of that Act;

(e) subsection 92(3) of the said Act shall be repealed and a rule substituted therefor to provide that in computing, at any time in a taxation year, the adjusted cost base to a corporation resident in Canada of any share of the capital stock of a

foreign affiliate of the corporation, there shall be deducted an amount in respect of any dividend received on the share by the corporation before that time equal to such portion of the amount so received as was deducted under subsection 113(2) of that Act, as amended by clauses (n)(ii) and (iii) hereof, from the income of the corporation for the year or any preceding taxation year for the purposes of computing its taxable income;

- (f) subsection 93(1) of the said Act shall be repealed and a rule substituted therefor to provide that where at any time a corporation resident in Canada has so elected, in prescribed manner and within the prescribed time, in respect of any share of the capital stock of a foreign affiliate of the corporation disposed of by it or by another foreign affiliate of the corporation, for the purposes of the Act, an amount equal to the lesser of
 - (i) the amount designated by the corporation in its election, and
 - (ii) the proceeds of disposition of the share

shall be deemed to have been a dividend received on the share from the affiliate by the disposing corporation or disposing affiliate, as the case may be, and not to have been proceeds of disposition;

- (g) paragraph 93(3)(a) of the said Act shall be repealed, and a rule substituted therefor to provide that, for the purposes of subsection 93(2) of that Act, a dividend received by a corporation resident in Canada is an exempt dividend to the extent of the amount in respect of the dividend

that is deductible from the income of the corporation in computing its taxable income by virtue of sub-clauses (n)(i)(A) and (B) hereof;

(h) section 94 of the said Act shall be repealed and rules substituted therefor to provide that:

(i) where

(A) at any time in a taxation year of an inter vivos trust that is not resident in Canada, or that but for subclause (C) hereof would not be so resident, a person beneficially interested in the trust (a "beneficiary") was

1. an individual resident in Canada,
2. a corporation or trust with which an individual resident in Canada was not dealing at arm's length, or
3. a controlled foreign affiliate of an individual resident in Canada, and

(B) at any time in or before the taxation year of the trust, the trust, or a non-resident corporation that would, if the trust were resident in Canada, be a controlled foreign affiliate of the trust, has acquired property directly or indirectly in any manner from a particular individual who

1. was the individual referred to in subclause (A) hereof, was related to that individual or was the uncle, aunt, nephew or niece of that individual,
2. was resident in Canada at any time in that year, and
3. had before the end of that year been resident in Canada for a period of, or periods the aggregate of which is, more than 60 months,

or from a trust or corporation that was not dealing at arm's length with a particular individual so described,

the following rules apply for that taxation year of the trust:

(C) where the amount of the income or capital of the trust to be distributed at any time to any beneficiary of the trust depends upon the exercise by any person of, or the failure by any person to exercise, any discretionary power,

1. the trust shall, without affecting its liability for tax otherwise payable under Part I of the said Act, be deemed for the purposes of Part I of that Act to be a person resident in Canada not exempt from tax under section

149 of that Act whose income and taxable income for the taxation year is the amount that would, if it were a trust to which subclause (D) hereof applies, be its foreign accrual property income for that year, and

2. for the purposes of section 126 of that Act, as amended by subparagraph (o) hereof,

I. the income referred to in sub-subclause 1. hereof shall be deemed to be the income of the trust from sources in a country other than Canada, and

II. such part of any income or profits tax paid by the trust for the year that may reasonably be regarded as having been paid in respect of that income shall be deemed to be the non-business-income tax paid by the trust to the government of that country; and

- (D) in any other case, for the purposes of clauses (b)(i) to (iv), inclusive, and subparagraph (i) hereof,
1. the trust shall be deemed to be a non-resident corporation that is controlled by any beneficiary under the trust the fair market value of whose beneficial interest in the trust is not less than 10% of the aggregate fair market value of all beneficial interests in the trust,
 2. the trust shall be deemed to be a non-resident corporation having a capital stock of a single class divided into 100 issued shares, and
 3. each beneficiary under the trust shall be deemed to own at any time a number of the issued shares that is equal to the proportion of 100 that
 - I. the fair market value at that time of his beneficial interest in the trustis of
 - II. the fair market value at that time of all

beneficial
interests in the
trust;

- (ii) where subclause (i)(C) hereof is applicable to a trust, each person described in subclause (i)(B) hereof shall jointly and severally with the trust have the rights and obligations of the trust by virtue of divisions I and J of the said Act and shall be subject to the provisions of Part XV of that Act, but no amount in respect of taxes, penalties, costs and other amounts payable under the said Act shall be recoverable from any such person except to the extent of
 - (A) amounts paid to him by the trust or the payment of which from the trust he is entitled to enforce, and
 - (B) amounts received by him on the disposition of an interest in the trust;
- (iii) in computing the foreign accrual property income of a trust to which subclause (i)(D) hereof applies for any taxation year there may be deducted such portion of the amount that would, but for this clause, be the foreign accrual property income of the trust as may reasonably be considered as having become an amount payable in the year within the meaning of subsection 104(24) of the said Act to a beneficiary;
- (iv) in computing, at any time in a taxation year, the adjusted cost base to a taxpayer resident in Canada of a capital interest in

a trust to which subclause
(i)(D) hereof applies

- (A) there shall be added any amount required by clauses (b)(i) and (iii) hereof to be included in computing his income for the year or any preceding taxation year (or that would have been so required to be included but for sections 74 and 75 of the said Act) in respect of that interest, and
 - (B) there shall be deducted any amount deducted by him by virtue of clauses (b)(ii) and (iv) hereof in computing his income for the year or any preceding taxation year (or that would have been so deductible by him but for sections 74 and 75 of the said Act) in respect of that interest; and
 - (v) for the purposes of subclause (i)(B) hereof, a person shall be deemed to have acquired property from any other person who has given a guarantee on his behalf or from whom he has received any other financial assistance whatever;
- (i) section 95 of the said Act shall be repealed and rules substituted therefor to provide that:
- (i) in subdivision i of that Act,
 - (A) "controlled foreign affiliate", at any time, of a taxpayer resident in Canada means a foreign affiliate of the taxpayer that was, at that time, controlled

directly or indirectly in any manner whatever, by

1. the taxpayer alone or together with not more than four other persons resident in Canada, or
2. a related group of which the taxpayer was a member;

(B) "foreign accrual property income" of a foreign affiliate of a taxpayer, for any taxation year of the affiliate, means the amount, if any, by which the aggregate of

1. the affiliate's incomes for the year from property and businesses other than active businesses, other than
 - I. interest that would, by virtue of paragraph 81(1)(m) of the said Act, not be included in computing the income of the affiliate if it were resident in Canada,
 - II. a dividend from another foreign affiliate of the taxpayer, or
 - III. a taxable dividend to the extent that the amount thereof would, if the

dividend were received by the taxpayer, be deductible by him under section 112 of that Act, and

2. the affiliate's taxable capital gains for the year from dispositions of property (other than property used principally for the purpose of gaining or producing income from an active business carried on by it),

exceeds the aggregate of

3. the affiliate's losses for the year from property and businesses other than active businesses determined as if there were not included in the affiliate's income any amount described in sub-sub-subclause 1.I., II., or III. hereof,

4. the affiliate's allowable capital losses for the year from dispositions of property (other than property used principally for the purpose of gaining or producing income from an active business carried on by it), and

5. the amount prescribed to be the deductible loss of the affiliate for the year and the five immediately preceding taxation years;
- (C) "foreign accrual tax applicable" to any amount included in computing a taxpayer's income by virtue of clause (b)(i) hereof for a taxation year in respect of a particular foreign affiliate of the taxpayer means the portion of any income or profits tax that was paid by the particular affiliate or any other foreign affiliate of the taxpayer in respect of a dividend received from the particular affiliate that may reasonably be regarded as applicable;
- (D) "foreign affiliate", at any time, of a taxpayer (other than a non-resident-owned investment corporation) resident in Canada means a corporation (other than a corporation resident in Canada) in which, at that time, the taxpayer's equity percentage was not less than 10%;
- (E) "non-business-income tax applicable" to an amount means the portion of an amount determined under paragraph 126(7)(c) of the said Act that may reasonably be regarded as applicable;

(F) "participating percentage" of a particular share owned by a taxpayer of the capital stock of a corporation in respect of any foreign affiliate of the taxpayer

1. where the foreign accrual property income of the affiliate is \$5,000 or less, is nil, and

2. where the foreign accrual property income of the affiliate exceeds \$5,000, is

I. where each corporation that is relevant to the determination of the taxpayer's equity percentage in the affiliate has only one class of issued shares, the percentage that would be the taxpayer's equity percentage in the affiliate on the assumption that he owned no shares other than the particular share (but in no case shall that assumption be made for the purpose of determining whether or not a corporation is a foreign affiliate of the taxpayer), and

II. in any other case, the percentage determined in prescribed manner;

(G) "relevant tax factor" means

1. where the taxpayer is an individual, 2, or
2. where the taxpayer is a corporation, the factor obtained when one is divided by the percentage referred to in section 123 of the said Act for the taxation year; and

(H) "taxation year" in relation to a foreign affiliate of a taxpayer means the period for which the accounts of the foreign affiliate have been ordinarily made up but no such period may exceed 53 weeks;

(ii) for the purposes of subclause (i)(B) hereof,

(A) income from an active business of a foreign affiliate of a taxpayer includes

1. any income from sources in a country other than Canada that would otherwise be income from property or a business other than an active business, to the extent that it pertains to or is incident to an active business carried on by the affiliate in that country, and

2. any amount paid or payable to the affiliate by another foreign affiliate of the taxpayer to the extent that it is deductible by that other affiliate in computing its income from an active business other than a business carried on by it in Canada;

(B) income of a controlled foreign affiliate of a taxpayer from services or an undertaking to provide services shall be deemed to be income from a business other than an active business if

1. the amount paid or payable in consideration therefor is deductible in computing the income from a business carried on in Canada by any person in relation to which the affiliate is a controlled foreign affiliate or by a person related to that person, or
2. the services are performed or are to be performed by any person referred to in sub-subclause 1. hereof who is an individual resident in Canada;

(C) where a foreign affiliate of a taxpayer (the "disposing affiliate") has disposed of one or more shares of the capital stock of another foreign affiliate of the taxpayer (the "shares disposed of") to any other foreign affiliate of the taxpayer (the "acquiring affiliate") and has received as part or all of the proceeds of disposition one or more shares of the capital stock of the acquiring affiliate,

1. the disposing affiliate's proceeds of disposition of each such share and the cost thereof to the acquiring affiliate shall be deemed to be the greater of

I. an amount equal to the fair market value, at the time of disposition, of all property (other than shares of the capital stock of the acquiring affiliate) received by the disposing affiliate as consideration for the disposition of the share disposed of, and

II. an amount equal to the adjusted cost base to the disposing affiliate of the share

disposed of
immediately
before the
disposition, and

2. the cost to the disposing affiliate of all the shares of the acquiring affiliate so received by it shall be deemed to be the amount, if any, by which the amount described in sub-sub-subclause 1.II. hereof multiplied by the number of shares disposed of exceeds the amount described in sub-sub-subclause 1.I. hereof multiplied by the number of shares disposed of;

(D) where a foreign affiliate of a taxpayer (the "disposing affiliate") has disposed of one or more shares of the capital stock of another foreign affiliate of the taxpayer on the amalgamation of that other affiliate, and the corporate entity formed as a result of the amalgamation (the "amalgamated affiliate") is a foreign affiliate of the taxpayer,

1. the disposing affiliate's proceeds of disposition of each such share shall be deemed to be the greater of

- I. an amount equal to the fair market value, at the time of disposition, of all property (other than shares of the capital stock of the amalgamated affiliate) received by the disposing affiliate as consideration for the disposition, and
 - II. an amount equal to the adjusted cost base to the disposing affiliate of the share disposed of immediately before the disposition, and
2. the cost to the disposing affiliate of all the shares of the amalgamated affiliate so received by it shall be deemed to be the amount, if any, by which the amount described in sub-sub-subclause 1.II. hereof multiplied by the number of shares disposed of exceeds the amount described in sub-sub-subclause 1.I. hereof multiplied by the number of shares disposed of;

- (E) where on the dissolution of a foreign affiliate of a taxpayer (the "disposing affiliate") one or more shares of the capital stock of another foreign affiliate of the taxpayer have been disposed of to a shareholder that is another foreign affiliate of the taxpayer, the disposing affiliate's proceeds of disposition of each such share and the cost thereof to the shareholder shall be deemed to be an amount equal to the adjusted cost base to the disposing affiliate of such share immediately before the dissolution; and

- (F) except as provided in sub-clauses (C), (D) and (E) hereof each taxable capital gain of a foreign affiliate of a taxpayer and each allowable capital loss of a foreign affiliate of a taxpayer shall be computed in accordance with the provisions of subdivision c of the said Act as though the foreign affiliate were resident in Canada, except that in computing any such gain or loss from the disposition of property owned by the affiliate at the time it last became a foreign affiliate of the taxpayer, there shall not be included such portion of the gain or loss, as the case may be, as may reasonably be considered to have accrued before that time;

- (iii) for the purposes of subclause (ii)(B) hereof, "services" includes the insurance of Canadian risks but does not include
 - (A) the transportation of persons or goods, or
 - (B) services performed in connection with the purchase for import or the sale for export of goods;
- (iv) in this subparagraph
 - (A) the "direct equity percentage" of any person in a corporation is the percentage determined by the following rules:
 1. for each class of the issued shares of the capital stock of the corporation, determine the proportion of 100 that the number of shares of that class owned by that person is of the total number of issued shares of that class, and
 2. select the proportion determined under subclause 1. hereof for that person in respect of the corporation that is not less than any other proportion so determined for that person in respect of the corporation,

and the proportion selected under sub-subclause 2. hereof, when expressed as a percentage, is that person's direct equity percentage in the corporation; and

(B) the "equity percentage" of a person, in any particular corporation, is the aggregate of

1. the person's direct equity percentage in the particular corporation, and
2. all percentages each of which is the product obtained when the person's equity percentage in any corporation (other than a corporation resident in Canada) is multiplied by that corporation's direct equity percentage in the particular corporation;

(v) for the purposes of subdivision i of the said Act,

(A) an income bond or income debenture issued by a corporation (other than a corporation resident in Canada) shall be deemed to be a share of the capital stock of the corporation unless any interest or other similar periodic amount paid by the corporation on or in respect of the bond or debenture was, under the laws of the country in which the corporation was resident,

deductible in computing the amount for the year on which the corporation was liable to pay income or profits tax imposed by the government of that country; and

(B) where

1. any person has a right under a contract, in equity or otherwise, either immediately or in the future and either absolutely or contingently, to, or to acquire, shares of the capital stock of a corporation, those shares shall, if one of the main reasons for the existence of the right may reasonably be considered to be the reduction or postponement of the amount of taxes that would otherwise be payable under the said Act, be deemed to be owned by that person, and
2. any foreign affiliate of a taxpayer has issued shares of a class of its capital stock and one of the main reasons for the existence or issuance of those shares of that class may reasonably be considered to be the reduction or postponement of the amount of taxes that would otherwise be payable under the said

Act, those shares shall be deemed not to have been issued; and

- (vi) for the purposes of subdivision i and subsection 52(3) of the said Act, the amount of any stock dividend paid by a foreign affiliate of a corporation resident in Canada shall, in respect of the corporation, be deemed to be nil;
- (j) section 85 of the said Act shall be amended by adding thereto a rule to provide that where a taxpayer has disposed of one or more shares of the capital stock of a foreign affiliate of the taxpayer to any other foreign affiliate of the taxpayer (the "acquiring affiliate") and has received as part or all of the proceeds of disposition one or more shares of the capital stock of the acquiring affiliate,
 - (i) the taxpayer's proceeds of disposition of each such share and the cost thereof to the acquiring affiliate shall be deemed to be the greater of
 - (A) an amount equal to the fair market value, at the time of disposition, of all property (other than shares of the capital stock of the acquiring affiliate) received by him as consideration for the disposition, and
 - (B) an amount equal to the adjusted cost base to him of the share disposed of, immediately before the disposition, and

(ii) the cost to the taxpayer of all the shares of the acquiring affiliate so received by him shall be deemed to be the amount, if any, by which the amount described in subclause (i)(B) hereof multiplied by the number of shares disposed of exceeds the amount described in subclause (i)(A) hereof multiplied by the number of shares disposed of;

(k) section 87 of the said Act shall be amended by adding thereto a rule to provide that where there has been an amalgamation of a foreign affiliate of the taxpayer and one or more other corporations and the taxpayer has disposed of one or more shares of the capital stock of the foreign affiliate owned by him immediately before the amalgamation, and the corporate entity formed as a result of the amalgamation (the "amalgamated affiliate") is a foreign affiliate of the taxpayer, the following rules shall apply:

(i) the taxpayer's proceeds of disposition of each such share shall be deemed to be the greater of

(A) an amount equal to the fair market value, immediately after the amalgamation, of all property (other than shares of the capital stock of the amalgamated affiliate) received by him as consideration for the disposition, and

(B) an amount equal to the adjusted cost base to him of the share disposed of, immediately before the disposition, and

- (ii) the cost to the taxpayer of all the shares of the amalgamated affiliate received by him in respect of the shares so disposed of shall be deemed to be the amount, if any, by which the amount described in subclause (i)(B) hereof multiplied by the number of shares disposed of exceeds the amount described in subclause (i)(A) hereof multiplied by the number of shares disposed of;

- (1) section 88 of the said Act shall be amended by adding thereto a rule to provide that where on the dissolution of a foreign affiliate of a taxpayer (the "disposing affiliate"), one or more shares of the capital stock of another foreign affiliate of the taxpayer have been disposed of to the taxpayer, the disposing affiliate's proceeds of disposition of each such share and the cost thereof to the taxpayer shall be deemed to be an amount equal to the adjusted cost base to the disposing affiliate of the share immediately before the dissolution;

- (m) section 112(2) of the said Act shall be amended so that, a corporation therein referred to as the payer of a dividend shall not include a foreign affiliate of a corporation therein referred to that received the dividend;

- (n) section 113 of the said Act shall be amended as follows:
 - (i) paragraphs (1)(a) and (b) thereof shall be repealed and rules substituted therefor to provide that the amount that may be deducted by the corporation therein referred to shall be an amount equal to the aggregate of

- (A) an amount equal to such portion of the dividend as is prescribed to have been paid out of the exempt surplus of the affiliate,
- (B) the amount obtained when the foreign tax prescribed to be applicable to such portion of the dividend as is prescribed to have been paid out of the taxable surplus of the affiliate is multiplied by the amount by which

- 1. the relevant tax factor

exceeds

- 2. one; and

- (C) an amount equal to such portion of the dividend as is prescribed to have been paid out of the pre-acquisition surplus of the affiliate;

- (ii) subparagraph (2)(a)(i) thereof shall be repealed and the following words substituted therefor: "the deduction in respect of the dividend permitted by subsection 91(5) in computing the corporation's income for the year, and";

- (iii) paragraph (2)(b) thereof shall be repealed and rules substituted therefor to provide that the amount therein shall be the amount, if any, by which

- (A) the adjusted cost base to the corporation of the share at the end of its 1975 taxation year

exceeds the aggregate of

- (B) the amount, if any, by which the aggregate of amounts required by clause (c)(i) hereof to be added in computing the adjusted cost base referred to in subclause (iii)(A) hereof exceeds the aggregate of amounts required by clause (c)(ii) hereof to be deducted in computing the adjusted cost base,
- (C) such amounts in respect of dividends received by the corporation on the share after the end of its 1975 taxation year and before the particular time as are deductible under subclause (i)(C) hereof in computing the taxable income of the corporation for taxation years ending after 1975, and
- (D) the aggregate of amounts deducted under subsection 113(2) of the said Act as amended by this subparagraph in respect of dividends received by the corporation on the share before the particular time; and

(iv) subsections 113(3) to (7) of the said Act shall be repealed and rules substituted therefor to provide that

- (A) in the said section "relevant tax factor" shall have the meaning given that expression by subclause (i)(i)(G) hereof; and

- (B) such portion of any dividend received at any time in a taxation year by a corporation resident in Canada on a share owned by it of the capital stock of a foreign affiliate of the corporation, that was received after the 1971 taxation year of the affiliate and before the affiliate's 1976 taxation year, as exceeds the amount deductible in respect of the dividend under subclause (i)(C) hereof in computing the corporation's taxable income for the year shall, for the purpose of subclause (i)(A) hereof, be deemed to be the portion of the dividend prescribed to have been paid out of the exempt surplus of the affiliate; and
- (o) section 126 of the said Act shall be amended
 - (i) to provide that a taxpayer who was resident in Canada at any time in a taxation year may claim a deduction from the tax for the year otherwise payable under Part I of the said Act by him in respect of such part of any non-business-income tax paid by him for the year to the government of a country other than Canada as may reasonably be regarded as being applicable to such portion of any dividend received by him on a share of the capital stock of a foreign affiliate of the taxpayer as is prescribed to have been paid out of the taxable surplus of the affiliate; and
 - (ii) to delete that part of paragraph 126(7)(c) of the said Act following subparagraph (ii) thereof.

Income of
partnership paid
to retired
partner or heirs
of deceased
partner

- (75) That for the 1972 and subsequent taxation years, for the purposes of subsection 96(1) and sections 101 and 103 of the said Act,
- (a) the members of a partnership, the principal activity of which is carrying on a business in Canada, may make an agreement (the "agreement") to allocate a share of the income or loss of the partnership, or any other amount in respect of any activity of the partnership that is relevant in computing the income or taxable income of any of the members of the partnership, to
 - (i) any taxpayer who ceased at some time to be a member of any partnership if the members of such a partnership had made an agreement of the nature described in this subparagraph,
 - (ii) the spouse, estate or heir of the taxpayer, or
 - (iii) a person who acquired from the taxpayer a right under an agreement described in this subparagraph;
 - (b) a taxpayer, spouse, estate, heir or person referred to in subparagraph (a) hereof (the "taxpayer") shall be deemed to be a member of the partnership;
 - (c) any amount allocated to the taxpayer under the agreement shall be included in computing the income of the taxpayer for his taxation year in which the fiscal period of the partnership, in respect of which the amount is allocated, ends;
 - (d) where in a taxation year the taxpayer disposes of a right under the agreement, whether or not the taxpayer is a resident of Canada at the time of the

disposition, the proceeds of disposition therefrom shall be included in computing the taxpayer's income for that year;

(e) the acquiror of the right referred to in subparagraph (d) hereof may deduct the cost thereof from income allocated to him under the agreement or from the proceeds from the disposition by him of the right; and

(f) where at the time of death of the taxpayer, the taxpayer had a right pursuant to the agreement, such right shall

(i) be deemed not to be a capital property, and

(ii) be subject to the rules in subsections 70(2) to (4), inclusive, of the said Act.

Late-filed
subsection
97(2) or 98(3)
elections

(76) That for the 1972 and subsequent taxation years,

(a) any election under subsection 97(2) or 98(3) of the said Act shall be made on or before the day (the "day") that is the earliest of the days on or before which any taxpayer making the election is required to file a return of income for the taxation year in which the transaction to which the election relates occurred, and

(b) where the election referred to in subparagraph (a) hereof was not made on or before the day and that day is after May 6, 1974, the election shall be deemed to have been made on that day if

(i) the election is made in prescribed form on or before a day that is one year after the day, and

(ii) a penalty is paid at the time the election is made

(A) by the taxpayer referred to in subsection 97(2) of the said Act equal to $\frac{1}{4}$ of 1% of the amount by which the fair market value of the property disposed of by the taxpayer at the time of disposition exceeds the amount agreed upon by the taxpayer and the members of the partnership in the election, or

(B) by the persons referred to in subsection 98(3) of the said Act equal to $\frac{1}{4}$ of 1% of the amount by which

1. the aggregate of all amounts of money, if any, and the fair market value of partnership property received by those persons as consideration for their interests in the partnership at the time that the partnership ceased to exist

exceeds

2. the aggregate of each person's proceeds of disposition of his interest in the partnership as determined under paragraph 98(3)(a) of the said Act,

for each month or part thereof that the election has not been made during the period commencing with the day and ending at the time the election is made.

- (77) That for the 1972 and subsequent taxation years,
- (a) for the purpose of the election referred to in subsection 97(2) of the said Act,
 - (i) the member from whom the partnership acquired the property, as well as all the other persons who are members of the partnership immediately after the acquisition of such property, shall be required to jointly make the election, and
 - (ii) the rules in subsection 96(3) of the said Act shall apply to such an election; and
 - (b) the rules in subsection 98(5) of the said Act relating to the continuance by a former member of the partnership, of the business of a Canadian partnership that ceased to exist, shall
 - (i) apply to a trust or corporation that was a former member of the partnership; and
 - (ii) be amended to provide that
 - (A) where at a particular time all other persons who were members of the partnership dispose of their interests therein to the former member who becomes the sole proprietor, he shall be deemed to have acquired partnership interests from all such members and not to have acquired property of the partnership at that time, and
 - (B) the amount to be included in computing the former member's proceeds of disposition by virtue of subparagraph

98(5)(a)(i) of the said Act shall be deemed to be the aggregate of

1. the adjusted cost base of his partnership interest immediately before such acquisitions, and
2. the cost to him of all the partnership interests deemed to have been acquired by him.

Former members
of partnership:
retention of
interest in
partnership

(78) That where at any time after 1971 a taxpayer has ceased to be a member of a partnership, subsection 98(1.1) of the said Act shall be repealed and the following rules shall be substituted therefor:

- (a) subject to the provisions of sections 48 and 70 of the said Act, the taxpayer shall be deemed not to have disposed of his interest in the partnership (the "residual interest") and to continue to have an interest therein, until such time as all of his rights to receive any property from the partnership in satisfaction of his residual interest are satisfied in full;
- (b) where the taxpayer's rights under his residual interest are satisfied in full before the end of the fiscal period of the partnership in which the taxpayer ceased to be a member, the taxpayer shall be deemed not to have disposed of his residual interest until the end of that fiscal period of the partnership;

- (c) notwithstanding subsection 40 (3) of the said Act, where in computing the adjusted cost base to the taxpayer of the residual interest at the end of a fiscal period of the partnership, the aggregate of amounts required to be deducted therefrom by virtue of subsection 53(2) of the said Act exceeds the aggregate of the cost to him of the residual interest and all amounts required to be added thereto by virtue of subsection 53(1) of that Act, such excess shall be deemed to be a gain of the taxpayer for the year from the disposition of the residual interest;
- (d) where the taxpayer has a residual interest, otherwise than by virtue of subparagraph (b) hereof, he shall, for the purpose of subsection 85(3) of the said Act, be deemed to be a member of the partnership; and
- (e) where the partnership in which the taxpayer has a residual interest ceases to exist without his residual interest being satisfied in full and the members of another partnership agree to satisfy his residual interest, the taxpayer shall be deemed to have a residual interest in the other partnership.

Trusts:
payments of
certain amounts
by inter vivos
trusts to
non-resident
beneficiaries

- (79) That for the 1974 and subsequent taxation years, where an inter vivos trust other than a mutual fund trust (the "trust") has a beneficiary who is a non-resident person, a non-resident-owned investment corporation or an inter vivos trust with a beneficiary who is a non-resident person (the "designated beneficiary"),
- (a) subsection 104(8) of the said Act shall be repealed;
 - (b) the designated beneficiaries' proportionate share of the trust's income for a taxation year from a source that is any of real properties situated in Canada, businesses carried on by it in Canada or capital gains from the disposition of property that would have been taxable Canadian property if at no time in the year the trust had been resident in Canada minus any allowable capital losses from the disposition of such property and losses from real properties situated in Canada or from businesses carried on by it in Canada ("designated income"), shall not be allowed as a deduction to the trust in computing its income for the year;
 - (c) for the purposes of subparagraph (b) hereof, a designated beneficiary's share of the designated income of a trust shall be determined by dividing the amount payable to that designated beneficiary by the trust in the year, by the aggregate of all amounts payable to all beneficiaries by the trust in the year including amounts included in computing the income of beneficiaries of the trust by virtue of subsections 104(12) and 105(2) of the said Act;
 - (d) there shall be subtracted from the amount determined under subsection 104(13) and paragraph 212(1)(c) of the said Act in respect of a particular designated beneficiary, that designated

beneficiary's proportionate share of the amount that the trust cannot deduct by virtue of subparagraph (b) hereof;

- (e) subsection 104(9) of the said Act shall be repealed; and
- (f) subsection 104(21) of the said Act shall not apply in respect of non-resident beneficiaries.

Trusts:
preferred
beneficiary's
share of the
accumulating
income

- (80) That for the 1973 and subsequent taxation years, paragraph 104(15)(c) of the said Act shall be amended to remove the restriction that the amount determined by regulation to be the prescribed share of a particular beneficiary referred to therein of the accumulating income of a trust for a taxation year must reasonably be regarded as having been earned for the benefit of the particular beneficiary.

Trusts:
cost of a capital
interest in a
testamentary
trust:

- (81) That for the 1972 and subsequent taxation years,

- (a) where on the death of an individual, a beneficiary has acquired a capital interest in a trust, within the meaning assigned by paragraph 108(1)(c) of the said Act (other than a capital interest purchased or acquired by the beneficiary as an existing capital interest), the beneficiary shall be deemed to have acquired that interest at a cost equal to nil;

disposition of
capital
interest:

- (b) the words "that proportion" and " $\frac{1}{2}$ of that proportion" in subsection 107(3) of the said Act shall be deleted and replaced by the words "the amount" and " $\frac{1}{2}$ of the amount", respectively; and

exclusion of
certain dividends
from trust income

- (c) for the purposes of subparagraph 70(6)(b)(i), paragraph 73(1)(a) and subparagraph 104(4)(a)(i) of the said Act, income of a trust shall be computed without taking into account dividends referred to in subsection 131(1) of that Act.

Members of
religious orders
having taken vows
of perpetual
poverty:
deduction from
income

(82) That for the 1972 and subsequent taxation years, an individual referred to in subsection 110(2) of the said Act shall be entitled to deduct from his income for a year, if the deduction is made pursuant to that subsection, superannuation and pension benefits received during the year, in addition to his earned income therein referred to.

Losses from
transactions
with respect to
shares

(83) That in respect of losses arising after May 6, 1974, subsections 112(3) and (4) of the said Act shall be repealed and the following rules shall be substituted therefor:

(a) where a corporation owns a share that is a capital property and receives a taxable dividend or capital dividend in respect of that share, the amount of any loss of the corporation arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the corporation that

(i) the corporation owned the share 365 days or longer before the loss was sustained, and

(ii) the corporation did not, at the time the dividend was received, own more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received,

be deemed to be the amount of that loss otherwise determined, minus the aggregate of all amounts received by the corporation in respect of:

(iii) taxable dividends on the share to the extent that the amounts thereof were deductible from the corporation's income for any taxation year by virtue of section 112 or subsection 138(6) of the said Act and were not amounts upon which the corporation was

required to pay tax under Part VII of the said Act, or

- (iv) capital dividends on the share;
- (b) where a taxpayer owns a share that is not a capital property and receives a dividend in respect of that share, the amount of any loss of the taxpayer arising from transactions with reference to the share on which the dividend was received shall, unless it is established by the taxpayer that
- (i) he owned the share 365 days or longer before the loss was sustained, and
 - (ii) he did not, at the time the dividend was received, own more than 5% of the issued shares of any class of the capital stock of the corporation from which the dividend was received
- be deemed to be the amount of that loss otherwise determined, minus the aggregate of all amounts received by him in respect of dividends (other than capital gains dividends, within the meaning assigned by subsection 131(1) of the said Act,) on the share to the extent that the amounts thereof were not amounts upon which he was required to pay tax under Part VII of the said Act; and
- (c) where a taxpayer has acquired a share (the "new share") in exchange for another share (the "old share") by means of a transaction to which sections 51 (subject to the amendment in paragraph (33) of this Motion), 86 (subject to the amendment in paragraph (62) of this Motion), or 87 (subject to the amendment in paragraph (63) of this Motion), of the said Act or paragraph (61) of this Motion applies, subparagraph (a) hereof shall apply to

the old and the new share as though they were the same share.

Taxable Canadian property: options

- (84) That effective after May 6, 1974, property described in paragraph 115(1)(b) of the said Act shall include an option in respect of that property.

Taxable Canadian property: shares of a non-resident owned investment corporation

- (85) That for the 1972 and subsequent taxation years, a share of the capital stock of a non-resident-owned investment corporation shall not be taxable Canadian property of the shareholder if, on the first day of the corporation's taxation year in which the shareholder disposed of the share, the corporation did not own any taxable Canadian property, within the meaning assigned by subsection 248(1) of the said Act for the purposes of section 2 thereof.

Taxable income of non-resident earned in Canada

- (86) That for the 1973 and subsequent taxation years, subparagraph 115(2)(e)(i) of the said Act shall be amended to exclude remuneration
- (a) that is subject to an income or profits tax imposed by the government of a country other than Canada, or
 - (b) that is paid to an employee in connection with the selling of property, the negotiating of contracts or the rendering of services for his employer, or a foreign affiliate of his employer, or any other person with whom his employer does not deal at arm's length, in the ordinary course of a business carried on by his employer or by that foreign affiliate or that other person.

Liability of purchaser in certain cases:

(87) That where after May 6, 1974, a non-resident person disposes of

(a) taxable Canadian property and, by virtue of subsection 116(5) of the said Act, a purchaser is required to pay tax under Part I of the said Act on behalf of the non-resident person, that Act shall be amended to require the remittance of the tax to the Receiver General of Canada within 30 days after the end of the month in which the purchaser acquired the property; and

dispositions of taxable Canadian property by gift or non-arm's length transaction

(b) taxable Canadian property (other than excluded property or property that is transferred on or after his death)

(i) to any person by way of gift inter vivos, or

(ii) to any person with whom he was not dealing at arm's length for no proceeds or for proceeds less than the fair market value of the property,

the purposes of section 116 of that Act, the person acquiring the property shall be deemed to have purchased the property for the fair market value thereof at the time he acquired it.

Foreign tax deduction

(88) That for the 1972 and subsequent taxation years, clause 126(1)(b)(i)(C) of the said Act shall be amended to require the assumption to be made that no businesses were carried on by the taxpayer in the country in which the income has its source, for purposes of computing the deduction for non-business-income tax paid to the government of a country other than Canada.

Foreign tax
deduction

(89) That for the 1974 and subsequent taxation years, where a non-resident person disposes of property that he had elected by virtue of paragraph 48(1)(c) of the said Act to have treated as taxable Canadian property, that person shall be entitled to deduct from the tax otherwise payable under Part I of the said Act an amount in respect of any tax levied by the government of a country other than Canada on the gain or profit from the disposition of that property.

Refundable dividend
tax on hand of a
private corporation:
Canadian investment
income

(90) That for taxation years ending after May 6, 1974, income from property used or held in the course of carrying on business by a private corporation shall be excluded from its investment income, within the meaning assigned by subsection 129(4) of that Act.

Investment
corporations:
distribution of
income requirement

(91) That for the 1972 and subsequent taxation years, the amount required by virtue of subsection 130(3) of the said Act to be distributed before the end of a year by an investment corporation to its shareholders shall be reduced by the amount that the corporation's non-capital loss for the year would have been on the assumption that the corporation did not have any taxed capital gains in the year.

Mutual fund
corporation:
refundable capital
gains tax on hand:

(92) That for taxation years of

(a) a mutual fund corporation ending after May 6, 1974, the amount determined under subparagraph 131 (6)(d)(i) of the said act shall be the aggregate of amounts each of which is an amount in respect of that or any previous taxation year throughout which it was a mutual fund corporation, equal to the least of

(i) 40% of its taxable income for the year,

mutual fund trust:
refundable capital
gains tax on hand

(ii) 40% of its taxed capital gains for the year, and

(iii) where the taxation year ended after May 6, 1974, the tax payable under Part I of the said Act by it for the year; and

(b) a mutual fund trust ending after May 6, 1974, the amount determined under subparagraph 132 (4)(b)(i) of the said Act shall be the aggregate of amounts each of which is an amount in respect of that or any previous taxation year throughout which it was a mutual fund trust, equal to the least of

(i) 40% of its taxable income for the year,

(ii) 40% of its taxed capital gains for the year, and

(iii) where the taxation year ended after May 6, 1974 the tax payable under Part I of the said Act by it for the year.

(93) That

Non-resident-owned
investment
corporation:
capital gains
dividend account

(a) for the 1972 and subsequent taxation years of a non-resident-owned investment corporation, the definition of Canadian property in paragraph 133(8)(b) of the said Act shall include property that would be taxable Canadian property of the corporation if it had not been resident in Canada at any time in the taxation year; and

allowable refundable
tax on hand

(b) for a 1972 taxation year of a non-resident-owned investment corporation that commenced before 1972, an adjustment shall be made to the allowable refundable tax on hand of the corporation, within the meaning

assigned by paragraph 133(9)(a) of the said Act, to take account of taxable capital gains of the corporation in that year.

Co-operatives:
definition of
customer

(94) That for the 1969 and subsequent taxation years, for the purpose of subsection 135(4) of the said Act,

- (a) where a person has sold or delivered a quantity of goods or products to a marketing board,
- (b) the marketing board has sold or delivered the same quantity of the same goods or products to a taxpayer of which the person is a member, and
- (c) the taxpayer has credited the person with an amount based on that quantity of goods or products of that class, grade and quality acquired by it from the marketing board,

the quantity of goods or products referred to in subparagraph (c) hereof shall be deemed to have been sold or delivered by the person to the taxpayer and to have been acquired by the taxpayer from that person.

Credit unions:
payments in respect
of members' shares:

(95) That for the 1972 and subsequent taxation years,

- (a) any amount paid or payable by a credit union to a member thereof in respect of his share in a credit union, other than any such amount paid or payable as or on account of capital or any such amount referred to under subsection 58(4) of the Income Tax Application Rules, 1971, but including any amount paid to the member thereof in excess of the paid-up capital of his share, shall be deemed to have been paid or payable by the credit union as

interest, and upon receipt by the member, to have been received by him as interest;

allocation in proportion to borrowing:

(b) section 82, subsections 83(1) and 84(2) to (4), inclusive, of the said Act shall not apply to credit unions;

(c) the definition of "allocation in proportion to borrowing" shall be extended to include an amount credited by a credit union to a member and computed at a rate in relation to the rate of interest on the money borrowed by the member from the credit union;

sources of income:
members

(d) the words "its revenues primarily from" in subparagraph 137(6)(b)(i) of the said Act shall be repealed and the words "substantially all of its revenues from" shall be substituted therefor;

(e) the sources that a credit union must derive its revenue from under the said subparagraph shall be extended to include:

(i) securities of or loans to, or guaranteed by, the Government of Canada or a province, a Canadian municipality, or an agency thereof, or securities of or loans to a municipal or public body performing a function of government in Canada or an agency thereof,

(ii) loans to or deposits with a bank or a corporation licensed or otherwise authorized under a law of Canada or a province to carry on in Canada the business of offering to the public its services as trustee,

(iii) charges, fees and dues levied against members or members of members, and

(iv) loans to or deposits with another credit union of which it is a member; and

(f) that part of subparagraph 137(6)(b)(ii) of the said Act preceding clause (B) thereof shall be repealed and rules substituted therefor to provide that a corporation shall qualify as a credit union if substantially all of the members thereof are corporations, associations or federations

(i) incorporated as credit unions or cooperative credit societies that derive substantially all of their revenue from sources described in subparagraph 137(6)(b)(i) of that Act as amended by subparagraph (e) hereof, or

(ii) all of whose shares are owned by credit unions, cooperatives or a combination thereof.

Deposit insurance corporations

(96) That for the 1975 and subsequent taxation years, in computing the income for a taxation year of a corporation that is a deposit insurance corporation (the "corporation"), the following rules shall apply:

(a) such of the following amounts as are applicable shall be included:

- (i) the aggregate of profits or gains made in the year by the corporation in respect of bonds, debentures, mortgages, hypothecs, notes or other similar obligations owned by it that were disposed of by it in the year, and
 - (ii) the aggregate of each such portion of each amount, if any, by which the principal amount, at the time it was acquired by the corporation, of a bond, debenture, mortgage, hypothec, note or other similar obligation owned by it at the end of the year exceeds the cost to the corporation of acquiring it as was included by the corporation in computing its profit for the year;
- (b) the amount of any premiums or assessments received from member institutions shall not be included;
- (c) such of the following amounts as are applicable may be deducted:
- (i) the aggregate of losses sustained in the year by the corporation in respect of bonds, debentures, mortgages, hypothecs, notes or other similar obligations owned by it that were disposed of by it in the year,
 - (ii) the aggregate of each such portion of each amount, if any, by which

the cost of the corporation of acquiring a bond, debenture, mortgage, hypothec, note or other similar obligation owned by it at the end of the year exceeds the principal amount thereof at the time it was acquired as was deducted by the corporation in computing its profit for the year, and

(iii) as a reserve in respect of its investments, such amount as may be claimed by the corporation, not exceeding the lesser of

(A) $1\frac{1}{2}\%$ of the aggregate of the amortized cost to it at the end of the year of each bond, debenture, mortgage, hypothec, note or other similar obligation owned by it at that time (other than a bond or debenture that matures within one year after that time) and each amount due and unpaid at that time as or on account of interest payable thereunder to the corporation, and

(B) the aggregate of $\frac{1}{3}$ of the amount determined under subclause (A) hereof and the amount, if any, deducted by the corporation under this subparagraph in computing its income for the immediately preceding taxation year;

- (d) no deduction may be made for
 - (i) the amount of any grant, subsidy or other assistance provided to member institutions including any amounts paid in excess of the fair market value of any acquired property,
 - (ii) any amounts paid to its member institutions in respect of amounts described in subparagraph (b) hereof,
 - (iii) any deduction that may otherwise be made under paragraph 20(1)(l) or section 33 of the said Act, or
 - (iv) any deduction that may otherwise be made under paragraph 20(1)(p) of that Act in respect of debts owing to it by any of its member institutions; and
- (e) there shall be included any amount deducted under clause (c)(iii) hereof as a reserve in computing the corporation's income for the immediately preceding taxation year;

and for the purposes of this paragraph,

- (f) a deposit insurance corporation shall mean
 - (i) a corporation that was incorporated by or under a law of Canada or a province respecting the establishment of a stabilization fund or board if

(A) it was incorporated primarily

1. to provide or administer a stabilization, liquidity or mutual aid fund for credit unions, and
2. assist in payment of any losses suffered by members of credit unions in liquidation, and

(B) throughout the taxation year,

1. it was a Canadian corporation, and
2. the cost amount to the corporation of its investment property was at least 50% of the cost amount to it of all its property, or

(ii) a corporation incorporated by the Canada Deposit Insurance Corporation Act;

(g) a member institution, in relation to a particular deposit insurance corporation, shall mean

(i) a corporation whose liabilities in respect of deposits are insured by, or

(ii) a credit union that is qualified for assistance from

that deposit insurance corporation;

(h) investment property shall mean

- (i) bonds, debentures, mortgages, hypothecs, notes or other similar obligations
 - (A) of or guaranteed by the Government of Canada,
 - (B) of the government of a province or an agency thereof,
 - (C) of a municipality in Canada or a municipal or public body performing a function of government in Canada,
 - (D) of a corporation, commission or association not less than 90% of the shares or capital of which is owned by Her Majesty in right of a province or by a Canadian municipality, or of a subsidiary to such a corporation, commission or association, or
 - (E) of an educational institution or a hospital if repayment of the principal amount thereof and payment of the interest thereon is to be made, or is guaranteed, assured or otherwise specifically provided for or secured by the government of a province,
- (ii) deposit certificates or guaranteed investment certificates with
 - (A) a bank to which the Bank Act or the Quebec Savings Banks Act applies, or
 - (B) a corporation licensed or otherwise authorized under the laws of Canada or a

province to carry on in
Canada the business of
offering to the public its
services as trustee, and

(iii) the amount of any money of the
corporation;

(i) amortized cost of a bond, debenture,
mortgage, hypothec, note or other
similar obligation (the "security")
at a particular time to a deposit
insurance corporation shall mean the
amount, if any, by which the aggregate

(A) the lesser of

1. the cost to the corporation
of acquiring the security,
and

2. the fair market value of
the security at the time of
acquisition, and

(B) any amount in respect of the
security that has been included
by virtue of clause (a)(ii)
hereof in computing the corpor-
ation's income for any taxation
year ending before or concur-
rently with that time,

exceeds the aggregate of

(C) any amount in respect of the
security that was deductible
under clause (c)(ii) hereof in
computing the corporation's
income for any taxation year
ending before or concurrently
with that time, and

(D) the aggregate of all amounts
that, before that time, the
corporation was entitled to
receive as, on account or in
lieu of payment of, or in
satisfaction of the principal
amount of the security;

- (j) notwithstanding any other provision of the said Income Tax Act, a deposit insurance corporation that would, but for this paragraph,
 - (i) be a private corporation, shall be deemed not to be a private corporation except for the purpose of section 125 of that Act, and
 - (ii) be a credit union, shall be deemed not to be a credit union;
- (k) for the purposes of subparagraph (f) hereof, a deposit insurance corporation shall be deemed to have complied with sub-subclause (f)(i)(B)2. hereof throughout the 1975 taxation year if it complied with that sub-subclause on the last day of that taxation year;
- (l) where a taxpayer is a member institution,
 - (i) any amount received by it from the corporation of which it is a member in a taxation year that is an amount described in clause (d)(i) or (ii),
 - (ii) any amount received from the corporation in a taxation year by a depositor or a member of the taxpayer as or on account or in lieu of payment of or in satisfaction of deposits or share capital, or
 - (iii) if at any time in a taxation year a debt or other obligation of the taxpayer to pay an amount to the corporation is settled or extinguished without any payment by the taxpayer or by the payment of an amount less than the principal amount of the debt or obligation, as the case may be, the amount

by which the principal amount exceeds the amount so paid, if any,

shall be included in computing the taxpayer's income for that year;

- (m) for the purposes of the said Act, where a taxpayer is a member institution, any amount paid or payable by the taxpayer during the year that is described in subparagraph (b) hereof may be deducted in computing the taxpayer's income for that year; and
- (n) the value of property of a corporation owned by it at the commencement of its 1975 taxation year shall be determined in accordance with the following rules:
 - (i) if the property is a bond, debenture, mortgage, hypothec, note or other similar obligation, its value shall be its cost to the corporation less any amounts received as or on account of capital and adjusted by reasonable amounts in respect of the amortization of premiums or discounts;
 - (ii) if the property is a debt owing to the corporation (other than property described in clause (i) hereof or a debt that became a bad debt before its 1975 taxation year) acquired by it before the commencement of its 1975 taxation year, its value shall be the amount thereof outstanding at that time; and
 - (iii) any other property shall be valued at its cost amount to the corporation.

Life insurance
corporation:
identical
properties

- (97) That for the 1972 and subsequent taxation years, for the purpose of section 47 of the said Act, any property of a life insurance corporation that is identical to any other property of the corporation shall be deemed not to be identical to that other property, unless both properties are
- (a) included in the same segregated fund of the corporation,
 - (b) held by the corporation in the course of carrying on a life insurance business in Canada, or
 - (c) held by the corporation in the course of carrying on an insurance business in Canada other than a life insurance business.

Depreciable
property of life
insurer acquired
before 1969

- (98) That for the 1972 and subsequent taxation years, for the purpose of computing the amount of a capital gain from the disposition of any depreciable property acquired by a life insurer before 1969, the capital cost of the property to the life insurer shall be its capital cost, determined without reference to paragraph 32(1)(a) of chapter 44 of the Statutes of Canada 1968-69.

General insurance
corporations

- (99) That for the 1974 and subsequent taxation years, an insurance corporation, other than a life insurance corporation, that would otherwise be deemed to be a private corporation shall be deemed not to be a private corporation except for the purpose of section 125 of that Act.

Election to deem
disposition of the
assets of a trust
governed by employees
profit sharing
plan: subsequent
reacquisition by
trust

- (100) That
- (a) at any time before 1975, a trustee of a trust governed by an employees profit sharing plan may make an election in a manner to be prescribed whereby

- (i) each of the assets of the trust owned on December 31, 1971 shall be deemed to have been disposed of at that time by the trust for proceeds of disposition equal to its fair market value, and
- (ii) each of the said assets shall be deemed to have been reacquired by the trust on January 1, 1972 at an amount equal to that value,

provided that the trustee has, before 1975, allocated the aggregate of all capital gains and capital losses resulting from the deemed disposition among the beneficiaries under the plan, and

- (b) where the trustee has made such an election, he may, in any year that is after 1973, make a further election in a manner to be prescribed whereby any capital property of the trust specified by the trustee in the further election shall be deemed to be
 - (i) disposed of by the trust for proceeds of disposition equal to an amount specified therein that is between the fair market value of that property and the adjusted cost base of that property to the trust, at the time of the further election, and
 - (ii) reacquired by the trust immediately thereafter at an amount equal to those proceeds of disposition.

Registered retirement savings plan: deduction for premium paid where spouse is annuitant

- (101) That for the 1974 and subsequent taxation years, there may be deducted in computing the income for a taxation year of a taxpayer whose spouse is an annuitant

under a registered retirement savings plan, or becomes within 60 days after the end of the taxation year, an annuitant thereunder, the amount of any premium paid by the taxpayer under the plan during the taxation year or within 60 days after the end of the taxation year (to the extent that it was not deductible in computing his income for a previous taxation year), not exceeding however the amount, if any, by which the amount determined in respect of the taxpayer under whichever of paragraphs 146(5)(a) and (b) of the said Act is applicable to him exceeds the aggregate of

- (a) the aggregate of amounts paid by the taxpayer in the year or within 60 days after the end of the year or within 60 days after the end of the year as a premium under a registered retirement savings plan under which he is the annuitant, and
- (b) the amount, if any, deductible under subsection 146(6) of that Act in computing his income for the year,

and for the purposes of this paragraph, a transfer of property by the taxpayer to a registered retirement savings plan of which his spouse is the annuitant thereunder shall not, provided that the taxpayer is entitled to a deduction in computing his income for the taxation year equal to the fair market value of the property so transferred, constitute a transfer of property to which section 74 of the said Act applies.

Education savings plan

(102) That for the 1972 and subsequent taxation years, rules shall be provided in the said Act for the registration and taxation of an education savings plan (the "plan") so that:

- (a) for the purposes of the said Act, the Minister shall not accept for

registration any plan of a promoter unless in his opinion

- (i) the plan provides that the income and capital of a trust established under the plan is irrevocably held for any of the purposes described in clause (m)(viii) hereof;
- (ii) at the time of application by the promoter for registration of the plan, there are not less than 150 subscribers who have entered into education savings plans with the promoter that comply with the conditions of this paragraph, other than this subparagraph;
- (iii) the promoter and all trusts established under the plan are resident in Canada;
- (iv) the plan does not allow for any payment to a subscriber other than a refund of payments unless the subscriber is also the beneficiary of the plan;
- (v) the plan is substantially similar to a plan described in or annexed to a prospectus filed by the promoter with a Securities Commission in Canada or a body performing a similar function in a province;
- (vi) in the event that a trust created under the plan is terminated, the property or money held by the trust is required to be used for the purposes described in clause (m)(viii) hereof; and
- (vii) in all other respects the plan complies with the regulations, if any, of the Governor in

Council made on the recommendation of the Minister of Finance;

- (b) where, in a year a plan cannot be accepted for registration solely because it cannot satisfy the condition set out in clause (a)(ii) hereof, if the plan is subsequently registered, it shall be deemed to have been registered on the first day of January of the year that is the later of
 - (i) the year in which all of the conditions in subparagraph (a) hereof (except clause (ii) thereof) were complied with, or
 - (ii) the year preceding the year in which the plan was registered;
- (c) notwithstanding the provisions of clause (a)(v) hereof, the Minister may register a plan that is not substantially similar to a plan described in or annexed to a prospectus filed by the promoter if the plan was in existence on October 15, 1973 and as of that date the other conditions in subparagraph (a) hereof had been complied with, and the plan shall be deemed to have been registered on January 1, 1972;
- (d) no tax is payable on the taxable income of a trust for a taxation year if the trust was, throughout the year or period of the year during which it was in existence, governed by a registered education savings plan (the "registered plan");
- (e) no tax is payable by a subscriber on the income of a trust for a taxation year after 1971, if the plan that governs the trust was, throughout the year, a registered plan;

(f) there shall be included in computing the income for a taxation year ending after 1973 of a beneficiary under a registered plan or such a plan whose registration has been revoked by the Minister, the amount of all educational assistance payments made to, or on behalf of, the beneficiary in the year minus the beneficiary's portion of the tax paid income;

(g) for the purpose of subparagraph (f) hereof, a "beneficiary's portion of the tax paid income" means the greater of

(i) the lesser of

(A) one third of the income reported to the beneficiary's subscriber as having been earned before 1972 in respect of payments made by or on behalf of the subscriber to the plan,

and

(B) the income reported to the beneficiary's subscriber as having been earned before 1972 in respect of payments made by or on behalf of the subscriber to the plan less the aggregate of all amounts determined under this subparagraph for preceding taxation years, and

(ii) the amount of the tax paid income actually allocated by the plan to the beneficiary in the year;

- (h) for the purposes of subparagraph (g) hereof, in any taxation year the trust governed by the plan shall allocate an amount of the tax paid income to a beneficiary that is not less than the amount determined under clause (g)(i) hereof for the year, but no amount of the tax paid income shall be allocated in a particular taxation year if an allocation has been made in respect of the same amount in a previous taxation year;
- (i) unless a plan is registered pursuant to the provisions of subparagraph (a) hereof, the trust governed by the plan shall be deemed to be a trust referred to in subsection 122(1) of the said Act that was established after June 17, 1971;
- (j) a plan that is registered before 1976 shall be deemed to have been registered on the later of January 1, 1972 or January 1 of the year in which the plan was created, and if registered after 1975 shall be deemed to have been registered on January 1 of the year of registration;
- (k) where a plan that has been accepted for registration ceases to comply with the requirements for registration, the Minister may revoke its registration, but an appeal may be lodged against such revocation;
- (l) where in a year the Minister revokes the registration of a registered plan pursuant to subparagraph (k) hereof, all amounts in excess of the aggregate of
 - (i) amounts paid by or on behalf of the subscriber under the plan, and

- (ii) the amount of the income reported to the subscriber as having been earned before 1972 in respect of payments made by him or on his behalf to the plan

shall be included in computing the income of the subscriber for that year; and

- (m) for the purposes of this paragraph,

- (i) an "education savings plan" means a contract between an individual (the "subscriber") and a promoter under which, in return for payments by the subscriber of any periodic or other amount as consideration under the contract, the promoter agrees to pay or have paid to or for a named beneficiary, educational assistance payments;
- (ii) "promoter" means a person or organization who enters into an education savings plan with a subscriber;
- (iii) a "beneficiary" in respect of a plan means a person designated by a subscriber to or for whom an educational assistance payment under the plan will be made if he qualifies;
- (iv) "educational assistance payment" in respect of a plan means any amount, other than a refund of payments, paid or payable under the plan to or for a beneficiary to assist him to further his education at the post-secondary school level;

- (v) "refund of payments" means any amount paid or payable to a subscriber, his heirs, executors or assigns as or on account of a return of payments made by or on behalf of the subscriber under a plan;
- (vi) "registered educational savings plan" means an education savings plan accepted by the Minister for registration for the purposes of the said Act;
- (vii) "income", in the case of a trust established under a registered education savings plan, includes capital gains, capital dividends and non-taxable dividends, less capital losses, but does not include payments of capital made by a subscriber or the promoter to a trust under the plan;
- (viii) "trust" means a trust that holds property or money irrevocably pursuant to an education savings plan for:
 - (A) the payment of educational assistance payments;
 - (B) the payment of scholarships to persons other than a beneficiary;
 - (C) the refund of payments;
 - (D) the payment to, or to a trust in favour of, designated educational institutions in Canada referred to in clause 110(9)(a)(i)(A) of the said Act; or
 - (E) the payment to another trust that irrevocably holds money or property transferred to it for any of the purposes set out in subclauses (A) to

(D) hereof; and

(ix) "tax-paid-income" means any income earned before 1972, by a trust under a plan that would have been an education savings plan if these rules were in force at that time.

Inadequate consideration on purchase from or sale to trusts for deferred profit sharing plans

(103) That for the 1974 and subsequent taxation years, paragraph 147 (18)(c) of the said Act shall be amended to include a reference to subsection 147(15) of that Act.

Charitable corporations and charitable trusts: gifts

(104) That for the 1974 subsequent taxation years,

(a) a corporation and a trust, referred to in paragraphs 149(1)(g) and (h) of the said Act, respectively, shall be allowed to make gifts to any donee described in paragraphs 110(1)(a) and (b) of that Act, and

(b) gifts made by another such corporation or trust to the corporation or trust, as the case may be, shall be included in computing the income of the corporation or trust.

Registered Canadian amateur athletic association

(105) That for the 1972 and subsequent taxation years, paragraph 149(1)(1) of the said Act shall be amended to allow a club, society or association referred to therein to distribute income for the personal benefit of a proprietor, member or shareholder thereof, provided that the proprietor, member or shareholder is a club, society or association whose primary purpose and function is the promotion of amateur athletics in Canada.

Instalments of tax: credit unions:

(106) That

(a) for the 1972 and subsequent taxation years, a credit union that estimates that its taxable income for the year will not exceed \$10,000 shall not be required to pay instalments of tax under subsection 157(1) of the said Act; and

corporations

- (b) for any taxation year of a corporation ending after May 6, 1974, paragraph 157(1)(b) of the said Act shall be amended to provide that the corporation's final instalment of tax for a taxation year shall be paid
 - (i) on or before the last day of the third month following the end of the taxation year, if an amount was deducted by virtue of section 125 of the said Act in computing the corporation's tax payable under Part I of that Act for the immediately preceding taxation year, or
 - (ii) in any other case, on or before the last day of the second month following the end of the taxation year.

Winding-up of
Canadian corporation:
liability of share-
holders for unpaid
taxes, interest
and penalties

- (107) That where at a particular time after May 6, 1974, all or substantially all of the property of a Canadian corporation is distributed to the shareholders of the corporation and taxes, interest and penalties, other than those referred to in subsection 159(2) of that Act, are assessed to the corporation subsequent to the particular time, each shareholder of the corporation shall be liable to pay an amount in respect of such taxes, interest and penalties not exceeding the fair market value at the particular time of the property received by him from the corporation.

Professional income:
treatment of 1971
receivables included
in income in the
year of death

- (108) That for the 1972 and subsequent taxation years, where in the taxation year in which a taxpayer dies an amount is included in computing his income by virtue of paragraph 23(3)(c) of the Income Tax Application Rules, 1971, the taxpayer's legal representative may elect under subsection 159(5) of the said Act to pay the tax on that amount in not more than six equal consecutive annual instalments with interest thereon at the rate prescribed.

Loss from disposition of property by legal representatives of deceased taxpayer: net capital loss and non-capital loss

(109) That with respect to estates of taxpayers who died after May 6, 1974, subsection 164(6) of the said Act shall be amended to provide that

- (a) dispositions of property of the estate referred to in paragraphs (a) and (b) thereof shall be required to be made within the first taxation year of the estate, and
- (b) the rules in paragraphs (e) and (f) thereof shall apply in computing income of the estate for the purposes of section 3 of the said Act.

Tax on 1971 undistributed income on hand: retroactive effect of election

(110) That where a corporation has made one or more elections under section 83 of the said Act and subsequently, at any particular time, that is after the enactment hereof, makes an election under this paragraph, in a manner and form to be prescribed, wherein it specifies one of those elections (the "specified election"), the following rules shall apply if, at the particular time, the corporation complies with the requirements (including the payment of any tax) of Part IX of that Act in respect of the election it is deemed by subparagraph (a) hereof to make by virtue of its election under this paragraph:

- (a) the corporation shall be deemed to have made, immediately before the time immediately before the specified election was made but after the last election under Part IX of that Act, if any, made by it before the specified election was made, an election under subsection 196(1) of the said Act on:
 - (i) an amount referred to in paragraph (a) thereof, if the corporation so claims, or

(ii) in any other case, an amount referred to in paragraph (b) thereof;

(b) any tax paid at the particular time by the corporation as a consequence of its election under this paragraph shall be deemed to have been paid at the time at which the corporation is deemed by subparagraph (a) hereof to have made the election in respect of the amount referred to in clause (a)(i) or (ii) hereof, as the case may be; and

(c) the corporation shall pay interest at a prescribed rate on the amount of the tax described in subparagraph (b) hereof from the time the specified election was made to the particular time.

1971 undistributed
income on hand:
specified personal
corporation

(111) That in computing the 1971 undistributed income on hand of a corporation at any particular time after May 6, 1974, paragraph 196(4)(b) of the said Act shall not apply to a corporation that is a specified personal corporation, within the meaning assigned by section 57 of the Income Tax Application Rules, 1971.

Deferred profit
sharing plans:
qualified
investments:
Parts X and XI.1

(112) That for 1973 and subsequent taxation years, in respect of a qualified investment for a deferred profit sharing plan,

(a) rules shall be added to section 198 of the said Act to provide that a life insurance policy referred to in paragraph (6)(d) thereof that gives an option to the policyholder to receive annuity payments, shall be deemed

(i) to comply with that paragraph until the time that the option is exercised, and

(ii) to have been disposed of at that time, and

an annuity contract shall be deemed to have been acquired at that time at a cost equal to the cash surrender value of the policy immediately before that time; and

(b) subsection 207.1(2) of the said Act shall be amended to provide that life insurance policies that are

(i) described in subparagraph (a) hereof, or

(ii) referred to in any of paragraphs 198(6)(c) to (e) inclusive, of the said Act,

shall be qualified investments for a trust governed by a deferred profit sharing plan for the purposes of Part XI.1 of that Act.

Qualified investment:
shares listed on
foreign stock
exchange

(113) That for the 1972 and subsequent taxation years, subparagraph 204(e)(ix) of the said Act shall be repealed, and a rule substituted therefor to provide that any shares listed on a prescribed stock exchange in a country other than Canada shall be a qualified investment, within the meaning assigned by paragraph 204(e) of the said Act.

Computation of life
insurer's taxable
Canadian life
investment income

(114) That the amounts deductible in computing a life insurer's taxable Canadian life investment income

(a) for the 1969 and subsequent taxation years, shall include the interest element of life insurance policies issued or affected pursuant to registered retirement savings plans or deferred profit sharing plans; and

(b) for the 1974 and subsequent taxation years, shall include the interest element of an ordinary annuity payment made to a non-resident person.

Withholding tax:
certain payments
of interest by
life insurers:

(115) That

(a) effective January 1, 1972, paragraph 212(1)(b) of the said Act shall not apply to interest on an obligation entered into by a life insurer in the course of carrying on a life insurance business in a country other than Canada;

obligation
guaranteed by the
Canada Deposit
Insurance
Corporation:

(b) effective after May 6, 1974, interest on an obligation that is insured by the Canada Deposit Insurance Corporation shall be deemed not to be interest with respect to an obligation guaranteed by the Government of Canada for the purpose of clause 212(1)(b)(ii)(C) of the said Act; and

exemption for
interest of
certain
obligations

(c) effective January 1, 1976, interest on a bond, debenture, note, mortgage, hypothec or similar obligation referred to in any of subclauses 212(1)(b)(ii)(C) (I) to (V) of the said Act shall be exempt from tax under Part XIII of the said Act if

(i) the obligation is issued after 1975, and

(ii) the interest is paid or credited to a person resident in a country to be prescribed by regulation.

Withholding tax:
rental payments
re railway
rolling stock

(116) That where after May 6, 1974, a person resident in Canada pays or credits an amount to a non-resident person for the use of railway rolling stock referred to in subparagraph 212(1)(d)(vii) of the said Act, such payment shall be subject to tax under Part XIII of the said Act unless the payment was made by a railway company pursuant to an agreement in writing entered into on or before May 6, 1974.

Withholding tax:
payment to
non-Canadian
partnerships:
payments by
partnerships:

(117) That for the purposes of Part XIII of the said Act, where after May 6, 1974,

(a) a person resident in Canada pays or credits an amount to a partnership that is not a Canadian partnership, within the meaning assigned by section 102 of that Act, the partnership shall be deemed, in respect of that payment, to be a non-resident person,

(b) a partnership pays or credits an amount to a non-resident person, the partnership shall be deemed, in respect of that payment, to be a person resident in Canada to the extent that the amount is deductible in computing the income of the partnership from sources in Canada; and

(c) a non-resident person

(i) whose business is carried on principally in Canada,

(ii) who manufactures or processes goods in Canada,

(iii) who operates an oil or gas well in Canada, or

(iv) who extracts minerals from a mineral resource in Canada,

pays or credits an amount to a non-resident person, he shall be deemed, in respect of that payment, to be a person resident in Canada to the extent that the payment was deductible in computing his income from carrying on a business in Canada unless the payer and the payee were dealing at arm's length and the payment was made pursuant to an agreement in writing entered into on or before May 6, 1974.

non-residents
carrying on
business in
Canada

Withholding tax:
amounts payable
by resident
trusts

(118) That for taxation years ending after May 6, 1974, where an amount becomes payable by a trust resident in Canada to a non-resident beneficiary and the amount is deductible in computing the income of the trust for a taxation year, for the purposes of paragraph 212(1)(c) of the said Act, the amount shall be deemed to have been paid to the non-resident as income of or from the trust on the earlier of

(a) the day on which the amount was paid or credited, or

(b) the 90th day after the end of the taxation year of the trust.

Withholding tax:
payments by
mortgage
investment
corporation

(119) That effective January 1, 1974, a dividend paid or credited by a mortgage investment corporation, within the meaning assigned by section 130.1 of the said Act, to a non-resident person shall be deemed, for the purposes of Part XIII of the said Act, to have been so paid or credited as interest.

Withholding tax:
guarantee and
commitment fees

(120) That where after May 6, 1974, a person resident in Canada pays or credits an amount to a non-resident person as consideration for the non-resident person having agreed to

(a) guarantee the repayment of an obligation of a person resident in Canada, or

(b) lend money or make money available to a person resident in Canada,

the amount shall be deemed, for the purposes of Part XIII of the said Act, to be a payment of interest.

Disposition by
non-resident of
real property or
timber limit
in Canada

(121) That

(a) for taxation years ending after May 6, 1974, the rules in section 216 of the said Act shall apply to a non-resident person who is a member of a partnership, and

(b) subsection 216(5) of that Act shall apply where after May 6, 1974, a non-resident person or partnership of which he is a member disposes of real property in Canada or a timber limit in Canada in respect of which, in computing his income for any taxation year during which he was resident in Canada, an amount had been deducted under paragraph 20(1)(a) of that Act.

Withholding tax:
non-resident
person electing
to file return of
income: alimony
or support payments

(122) That for the 1974 and subsequent taxation years, section 217 of the said Act shall be amended to include alimony or other payments referred to in paragraph 212(1)(f) of the said Act in the amount in respect of which a non-resident person may file a return of income under Part I of the said Act.

Branch tax:
taxable dividends
received

(123) That for taxation years ending after May 6, 1974, taxable dividends received by a corporation referred to in subsection 219(1) of the said Act for which the corporation has deducted an amount under section 112 of the said Act in computing its taxable income, shall be added to the amount on which tax under Part XIV of the said Act is computed.

Definition of
share

(124) That effective after May 6, 1974, the definition of the word "share" in subsection 248(1) of the said Act shall be amended to include a fraction of a share.

Persons connected
by blood
relationship,
marriage or
adoption

(125) That for the 1972 and subsequent taxation years, the definitions of persons connected by blood relationship, marriage or adoption in subsection 251(6) of the said Act shall not apply for the purpose of clause 109(1)(b)(ii)(B) of that Act.

NOTICE OF WAYS AND MEANS MOTION

TO AMEND

THE INCOME TAX APPLICATION RULES, 1971

That it is expedient to amend the Income Tax Application Rules, 1971, being Part III of chapter 63 of the Statutes of Canada, 1970-71-72, and to provide among other things:

Withholding tax:
certain payments

- (1) That section 10 of the said Rules shall be amended to provide that, notwithstanding any provision of the Income Tax Act, where an amount is paid or credited after 1975 to a non-resident person and any agreement or convention between the Government of Canada and the government of any other country that has the force of law in Canada provides that the rate of tax imposed thereon shall not exceed a rate specified in the agreement or convention (the "specified rate"),
 - (a) any reference in Part XIII of that Act to a rate in excess of the specified rate shall, in respect of that payment, be read as a reference to the specified rate, and
 - (b) except where the amount may reasonably be attributed to a business carried on by that person in Canada, for the purpose of any such convention or agreement, that person shall be deemed in respect of that payment not to have a permanent establishment in Canada.

Depreciable
property:
capital property
other than
depreciable
property

- (2) That effective after May 6, 1974 the word "transactions" in paragraph 20(1)(b) of the said Rules shall be deleted and the words "transactions or events other than the death of a taxpayer to which subsection 70(5) of the amended Act applies," shall be substituted therefor.

Government right
requiring annual
renewal:

- (3) That
- (a) for the 1972 and subsequent taxation years, there shall be included in clause 21(1)(b)(ii)(B) of the said Rules an annual government right held by the taxpayer on December 31, 1971 that was neither the original right nor the government right but was one of a series of annual rights under which the rights held under the original right were continued from year to year; and

goodwill and
other nothings

- (b) where a taxpayer dies after May 6, 1974,
- (i) the rules in section 21 of the said Rules shall apply with regard to a deemed disposition of any eligible capital property owned by him at that time in respect of a business carried on by him throughout the period commencing January 1, 1972 and ending upon his death, and
- (ii) for the purpose of computing the income of a person who acquired the eligible capital property, by virtue of the death of the taxpayer, that portion of the actual amount, within the meaning assigned by subsection 21(1) of the said Rules, that exceeds the amount that is deemed to have become

payable to the taxpayer, by virtue of that subsection, shall be deemed not to have been an outlay, expense or cost, as the case may be, of that person.

Professional
income: reserve
for 1971
receivables

(4) That for the 1974 and subsequent taxation years,

- (a) where a taxpayer has ceased at a particular time to be a member of a partnership by means of which he formerly carried on a business that was a profession, and
- (b) where the aggregate of the taxpayer's investment in any such partnerships exceeds the aggregate of his investments in partnerships in which he is carrying on that business at that time,

his 1971 receivables, within the meaning assigned by subsection 23(5) of the said Rules, in respect of that business shall be brought into his income at a rate that is the greater of one tenth of those receivables each year or the amounts actually paid to the taxpayer in respect of such receivables.

Property
disposed of
in transaction
not at arm's
length:

(5) That

- (a) for transactions or events occurring after May 6, 1974, subsection 26(5) of the said Rules shall be amended so that:
 - (i) the reference to "transactions" therein shall be deleted and the words "transactions or events" substituted therefor;
 - (ii) the amounts to be aggregated under subparagraph 26(5)(c)(i) of those Rules shall include any amount determined under paragraph 88(1)(d) of the Income Tax Act; and

(iii) the amounts to be aggregated under subparagraph 26(5)(c)(ii) of those Rules shall include any amount that would be a capital loss but for subsection 85(4) of the Income Tax Act from the disposition after 1971 of that property by a person who owned that property before it became vested in the taxpayer;

transfer of capital property of a taxpayer to a trust:

(b) for the purposes of subsection 26(5) of the said Rules, where after May 6, 1974, subsection 70(6) or 73(1) of the Income Tax Act applies to a transfer of capital property (other than depreciable property) of a taxpayer to a trust referred to therein, the transfer shall be deemed to be a transaction between persons not dealing at arm's length; and

transfer of certain capital property of a taxpayer to a corporation

(c) for the purpose of subsection 26(5) of the said Rules, where after May 6, 1974 there has been a sale of capital property (other than depreciable property) of a taxpayer to a corporation in respect of which an election under section 85 of the Income Tax Act has been made, the sale shall be deemed to be a transaction between persons not dealing at arm's length.

Fair market value election as to cost of capital property owned on December 31, 1971

(6) That for the 1972 and subsequent taxation years, the election referred to in subsection 26(7) of the said Rules shall not be required to be made with the taxpayer's return of income for the first taxation year therein referred to if, in addition to the exceptions therein referred to, the proceeds of disposition of each property disposed of in the year are equal to the fair market value of that property on valuation day.

Identical
properties:
life insurance
corporations:

- (7) That for the purpose of subsection 26(8) of the said Rules,
- (a) for the 1972 and subsequent taxation years any property of a life insurance corporation that is identical to any other property of the corporation shall be deemed not to be identical to that other property, unless both properties are
 - (i) included in the same segregated fund of the corporation,
 - (ii) held by the corporation in the course of carrying on a life insurance business in Canada, or
 - (iii) held by the corporation in the course of carrying on an insurance business in Canada other than a life insurance business; and
 - (b) where a bond, debenture, bill, note or other similar obligation was issued before 1972 by a debtor, it shall be considered to be identical to another such obligation issued by the debtor before 1972 if both obligations are identical in respect of all rights attaching thereto except for the principal amounts thereof.

debt obligations
issued before
1972, differing
only as to
principal amount

Tax equity of
partnership:
depreciable
property not of
a prescribed
class

- (8) That for the 1972 and subsequent taxation years, there shall be included in computing the tax equity of a partnership, within the meaning assigned by subsection 26(12) of the said Rules, depreciable property that is not of a prescribed class.

Actual cost of capital property received before 1972 from certain plans

- (9) That where a taxpayer received capital property before 1972 from a pension fund or plan, employees profit sharing plan, retirement savings plan, supplementary unemployment benefit plan or deferred profit sharing plan, and owned the property thereafter without interruption until a particular time after 1971, the actual cost of the property to him shall be deemed to be its fair market value at the time the property was so received by him.

Amalgamations, exchanges and capital reorganizations: 1971 capital surplus on hand not arising in certain cases: cost and adjusted cost base of new property

- (10) That,

(a) where there is

- (i) an amalgamation, within the meaning assigned by section 87 of the Income Tax Act, after May 6, 1974 of two or more corporations (each of which is a "predecessor corporation") to form one corporate entity (the "new corporation") and a taxpayer acquires

(A) shares of one class of the capital stock of the new corporation (the "new property") as the sole consideration for the disposition on the amalgamation of capital property that was shares of one class of the capital stock of a predecessor corporation (the "old property"), that were owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation,

(B) an option to acquire shares of the capital stock of the new corporation (the "new

property") as the sole consideration for the disposition on the amalgamation of a capital property that was an option to acquire shares of the capital stock of a predecessor corporation (the "old property") that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation, or

(C) a bond, debenture, note, mortgage or other similar obligation of the new corporation (the "new property") as the sole consideration for the disposition on the amalgamation of a capital property that was a bond, debenture, note, mortgage or other similar obligation, respectively, of a predecessor corporation (the "old property") that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the amalgamation and the amount payable to the holder of the new property on its maturity is the same as the amount that would have been payable to the holder of the old property on its maturity,

(ii) an exchange after 1971 to which section 51 of the Income Tax Act applies by virtue of which a taxpayer acquires

shares of the capital stock of a corporation (the "new property") in exchange for a share, bond, debenture or note of the corporation (the "old property") that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange,

(iii) an exchange of bonds after May 6, 1974, to which section 77 of the Income Tax Act applies by virtue of which a taxpayer acquires a bond of a debtor (the "new property") in exchange for another bond of the same debtor (the "old property") that was owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange, or

(iv) a reorganization of the capital of a corporation after May 6, 1974 to which section 86 of the Income Tax Act applies by virtue of which a taxpayer acquires only shares of one class of the capital stock of the corporation (the "new property") in exchange for shares of one class of the capital stock of the corporation (the "old property") that were owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange,

notwithstanding any other provision of the said Rules or of the Income Tax Act, for the purposes of subparagraphs 89(1)(1)(ii) and (vii) of the Income Tax Act and of determining the cost and the adjusted cost base to the taxpayer of the new property

(but not for the purposes of determining the cost or adjusted cost base to the taxpayer of new property received by virtue of an exchange that occurred before May 7, 1974 to which section 51 of that Act applied), the following rules shall apply:

- (v) the property that was the old property shall be deemed not to have been disposed of by the taxpayer by virtue of the amalgamation, exchange or reorganization, as the case may be, but to have been altered, in form only, by virtue thereof and to have continued in existence in the form of the new property acquired therefor, and
 - (vi) the property that is the new property shall be deemed not to have been acquired by the taxpayer by virtue of the amalgamation, exchange or reorganization, as the case may be, but to have been in existence prior thereto in the form of the old property that was altered, in form only, by virtue thereof;
- (b) where a taxpayer acquires after May 6, 1974, properties that are shares (the "new shares") of one class of the capital stock of a particular Canadian corporation in exchange for capital properties that were shares of the capital stock of another corporation (the "exchanged shares") which were owned by the taxpayer on December 31, 1971 and thereafter without interruption until immediately before the exchange and

- (i) the taxpayer and the particular Canadian corporation were dealing with each other at arm's length immediately before the exchange,
- (ii) the taxpayer, persons with whom he does not deal at arm's length, or the taxpayer together with persons with whom he does not deal at arm's length do not control, either directly or indirectly in any manner whatever, the particular Canadian corporation immediately after the exchange,
- (iii) no election is filed by the taxpayer and the particular Canadian corporation with respect to the exchange, pursuant to the provisions of subsection 85(1) or (2) of the Income Tax Act, and
- (iv) no consideration is received by the taxpayer for the exchanged shares other than the new shares,

notwithstanding any other provision of the said Rules or of the Income Tax Act, for the purposes of subparagraphs 89(1)(1)(ii) and (vii) of the Income Tax Act and of determining the cost and the adjusted cost base to the taxpayer of the new shares, the rules in clauses (a)(v) and (vi) hereof shall apply, provided that the taxpayer has not included in computing his capital gain or loss, as the case may be, from the disposition of the exchanged shares, proceeds of disposition in respect of the exchanged shares equal to the fair market value thereof immediately before the exchange; and

- (c) upon the enactment of this provision, subsection 26(21) of the said Rules shall be repealed in respect of amalgamations occurring after May 6, 1974.

Change of use of principal residence to income-producing property prior to 1972: election to deem change of use not to have occurred

- (11) That where, at any time before 1972, a taxpayer changed the use of a property that was, at that time, his principal residence, within the meaning assigned by paragraph 54(g) of the Income Tax Act, to an income-producing property, and owned the property on December 31, 1971,
 - (a) the taxpayer may elect in his return of income for the 1974 or 1975 taxation year to deem the change of use not to have occurred at that time, and
 - (b) where the taxpayer so elects,
 - (i) for the purpose of paragraphs 40(2)(b) and 54(g) of the Income Tax Act,
 - (A) the change of use shall be deemed to have taken place on January 1, 1972, and
 - (B) the election shall be deemed to be an election referred to in subsection 45(2) of the Income Tax Act, and
 - (ii) for the 1974 and subsequent taxation years of the taxpayer, no capital cost allowance may be claimed in respect of the property.

Income derived
from the
operation of
a mine

(12) That

- (a) for the 1972 and subsequent taxation years, section 28 of the said Rules, and
- (b) for the 1971 and previous taxation years, section 83 of the Income Tax Act as it read in its application to those years,

shall be amended so that the words "income derived from the operation of a mine" shall include the income reasonably attributable to the processing of mineral ores from a mine up to the prime metal stage or its equivalent.

Late-filed
section 83
elections

(13) That where at any particular time that was after 1971 and before 1974, a dividend referred to in subsection 83(1) or (2) of the Income Tax Act became payable by a corporation and the election therein referred to was not made on or before the day on or before which it was required to be made, the election shall be deemed to have been made on that day, if the election is made, in the manner and form prescribed, on or before December 31, 1974.

Special rule
for capital
dividends
payable before
certain date

(14) That where a capital dividend, referred to in subsection 83(2) of the Income Tax Act, of a corporation became payable in a taxation year at a particular time that was after 1971 and before May 7, 1974, for the purpose of computing the corporation's capital dividend account immediately before the particular time, all amounts each of which is an amount in respect of a capital loss from the disposition of property in the taxation year and before the particular time shall be deemed to be nil.

Late-filed
section 85
election

- (15) That where an election referred to in subsection 85(1) or (2) of the Income Tax Act that could only have been made on or before a day (the "day") that was before May 7, 1974, was not so made, the election shall be deemed to have been made on the day if it is made on or before December 31, 1974.

Late-filed
subsection
97(2) and 98(3)
elections

- (16) That where an election referred to in subsection 97(2) or 98(3) of the Income Tax Act that could only have been made on or before a day (the "day") that was before May 7, 1974, was not so made, the election shall be deemed to have been made on the day if it is made on or before December 31, 1974.

Foreign
affiliates

- (17) That for the 1972 and subsequent taxation years, subsections 35(3) and (4) of the said Rules shall be repealed and a rule substituted therefor to provide that subsection 91(1) of the Income Tax Act shall be read as if the reference therein to "each taxation year of the affiliate" were read as a reference to "the 1976 and each subsequent taxation year of the affiliate".

Loss
carryovers

- (18) That for the 1972 and subsequent taxation years, the words "to the extent that it would have been deductible in computing the taxpayer's income for the 1972 taxation year" in subsections 37(1) and (3) of the said Rules shall be deleted and the words "to the extent that it would have been deductible in computing the taxpayer's taxable income for the 1972 taxation year" shall be substituted therefor.

Depreciable
property of
credit unions
acquired
before 1972

- (19) That for the 1972 and subsequent taxation years,
- (a) any depreciable property acquired by a credit union in a taxation year ending before 1972 shall be deemed to have been acquired by it on the last day of its 1971 taxation year;

- (b) for the purpose of computing a capital gain from the disposition of depreciable property acquired by a credit union in a taxation year ending before 1972, the capital cost of the property shall be deemed to be its capital cost, determined without reference to paragraph 58(1)(c) of the said Rules; and
- (c) for the purpose of computing the deemed capital cost of depreciable property acquired by a credit union before 1972 by virtue of subsection 58(1) of the said Rules, the year of acquisition of the property shall be excluded.

Continuation
of certain
reserves of
credit union

(20) That

- (a) the maximum cumulative reserve of a new corporation that is formed at a time that is after May 6, 1974, as the result of an amalgamation, within the meaning assigned by section 87 of the Income Tax Act, of credit unions shall be deemed to be the amount by which its maximum cumulative reserve at that time, determined under paragraph 137(6)(c) of the said Act, exceeds the aggregate of all amounts, if any, referred to in paragraphs 58(3.2)(a) and (b) of the said Rules and determined thereunder in respect of each of the predecessor corporations; and
- (b) the maximum cumulative reserve of a credit union (the "acquiror") that has acquired, otherwise than by virtue of an amalgamation, at a time that is after May 6, 1974, all or substantially all of the assets of another credit union shall be the amount by which the acquiror's maximum cumulative reserve at that time, determined under paragraph 137(6)(c) of the Income Tax Act,

exceeds the aggregate of the amounts determined under paragraphs 58(3.2)(a) and (b) of the said Rules in respect of the acquiror, as if each of the amounts determined under the said paragraphs is the aggregate of the amounts determined thereunder without regard to this subparagraph and the amounts determined thereunder in respect of the other credit union.

Repeal of
section 64.3

(21) That upon the enactment of this paragraph, section 64.3 of the said Rules shall be repealed.

NOTICE OF WAYS AND MEANS MOTION

TO AMEND

CHAPTER 17 OF THE STATUTES OF CANADA, 1960-61

Repeal of
section 10

That it is expedient to introduce a measure to amend chapter 17 of the Statutes of Canada, 1960-61, an Act to amend the statute law relating to income tax, to provide that section 10 thereof shall be repealed.

NOTICE OF WAYS AND MEANS MOTION
AN ACT TO AMEND THE EXCISE TAX ACT
AND THE EXCISE ACT

That it is expedient to introduce a measure to amend the Excise Tax Act and the Excise Act and to provide among other things that effective May 7, 1974:

1. The following goods be made exempt from the consumption or sales tax:
 - (a) clothing and footwear as the Governor-in-Council may determine by regulation including materials designed primarily for use in home or commercial production thereof;
 - (b) bicycles; and
 - (c) articles and materials for use exclusively in the manufacture or production of the above-mentioned tax-exempt products.
2. The following goods (not including motor trucks) be made exempt from the consumption or sales tax:
 - (a) excavation and earthmoving equipment; cranes; compactors and rollers; air compressors and pumps; attachments for the foregoing; all at a price in excess of \$1,000.00 per unit and specially designed for construction or demolition purposes;
 - (b) equipment designed for use directly in the preparation, laying or spreading of concrete or asphalt; attachments for the foregoing; all at a price in excess of \$1,000.00 per unit; and
 - (c) articles and material for use exclusively in the manufacture or production of the above-mentioned tax-exempt products.
3. The following goods when sold to or imported by or on behalf of a municipality for its own use and not for resale be made exempt from the consumption or sales tax:
 - (a) passenger transportation vehicles and parts therefor (not including vehicles designed to carry less than 12 passengers) for use directly and principally in the operation of a municipal public passenger transportation system, which each day provides a regularly scheduled service to the general public, owned or operated or to be owned or operated by or on behalf of a municipality; and
 - (b) goods for use as part of water distribution systems under the control of a municipality.

4. The definition of "certified institution" set out in subsection 45(1) of the Excise Tax Act be repealed and the following substituted therefor:

" "certified institution" means an institution that by a certificate issued by the Minister of National Health and Welfare is certified to be, as of the day specified in the certificate,

- (a) a bona fide public institution whose principal purpose is to provide care for children or aged, infirm or incapacitated persons, and
- (b) in receipt annually of aid from the Government of Canada or the government of a province for the care of persons specified in paragraph (a);"

5. The exemption from the consumption or sales tax for aids and devices to assist the physically handicapped be broadened to include:

- (a) communication devices, for use with telegraph or telephone apparatus, purchased on the written order of a registered medical practitioner for the use of the deaf and the dumb;
- (b) invalid chairs, commode chairs, walkers and similar aids to locomotion, with or without wheels; motive power and wheel assemblies therefor; patterning devices; toilet, bath and shower seats; all the foregoing specially designed for the disabled; accessories and attachments for all the foregoing; including batteries specially designed for use therewith;
- (c) selector control devices, purchased on the written order of a registered medical practitioner, specially designed for use by physically handicapped persons to enable such persons to select, energize or control various household, industrial and office equipment;
- (d) heart monitoring devices, purchased on the written order of a registered medical practitioner by an individual afflicted with heart disease for his own use, including batteries specially designed for use therewith;
- (e) hospital beds purchased or leased on the written order of a registered medical practitioner by an incapacitated person for his own use;
- (f) needles and syringes designed for medical purposes; and
- (g) articles and materials for use exclusively in the manufacture or production of the above-mentioned tax-exempt products.

6. The exemption from the consumption or sales tax for miscellaneous items be broadened to include amusement riding devices, ancillary equipment and parts therefor, not including motor trucks or coin operated devices, specially designed for use at agricultural exhibitions or commercial fairs.
7. The relief from the requirement to pay the consumption or sales tax provided for under subsection 28(2) of the Excise Tax Act, for printed matter produced by Her Majesty in right of Canada for own use, be repealed.
8. Subsection 25(1) of the Excise Tax Act be amended by increasing the special excise tax on wines imposed thereunder
 - (a) by twenty cents per gallon on wines, other than cider, of all kinds containing not more than seven per cent of absolute alcohol by volume; and
 - (b) by forty cents per gallon on wines, other than cider, of all kinds containing more than seven per cent of absolute alcohol by volume.
9. Schedule I to the Excise Tax Act be amended by repealing paragraph 6 thereof and substituting therefor the following:

"6. Cigars twenty and one-half per cent."
10. Schedule I to the Excise Tax Act be further amended by adding thereto the following:
 - "9. Automobiles, not including ambulances, hearses, or automobiles designed to carry 12 or more passengers
 - (a) automobiles other than station wagons and vans designed to carry more than six passengers, for each one hundred pounds or portion thereof that the weight of the automobile exceeds four thousand five hundred pounds twenty dollars;
 - (b) station wagons including vans designed to carry more than six passengers, for each one hundred pounds or portion thereof that the weight of the station wagon exceeds five thousand one hundred pounds twenty dollars;

and for purposes of this section the weight of an automobile is the weight of a fully manufactured automobile at the time of its sale by the manufacturer or the importer, as the case may be, including the weight, at that time, of all articles and materials the value of

which are included in its sale price as determined in Part V of this Act.

10. Motorcycles with engines that have a displacement of greater than two hundred and fifty cubic centimeters ... three per cent.
11. Boats designed to be propelled primarily by motors exceeding twenty horsepower; and motors exceeding twenty horsepower (including drive assemblies) for boats three per cent.
12. Aircraft but not including military aircraft and aircraft owned or operated by such class of air carrier authorized pursuant to the Commercial Air Service Regulations made under the Aeronautics Act to provide a commercial air service as the Governor-in-Council may by regulation prescribe and that are purchased for use in such service..... three per cent.

Sections 9, 10, 11 and 12 do not apply to any of the goods mentioned therein that are sold under conditions for which relief from the consumption or sales tax is provided by virtue of any provision of this Act other than subsection 27(2).

Payment of the tax imposed by virtue of section 9 may be deferred in the case of automobiles imported by persons who manufacture automobiles in Canada until such time as the imported automobiles are sold in Canada by such persons."

11. Part I of the Schedule to the Excise Act be amended by repealing subsection 1.(1) thereof and substituting therefor the following:

"1.(1) On every gallon of the strength of proof distilled in Canada, except as hereinafter otherwise provided, sixteen dollars and twenty-five cents, and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon."

12. Part II of the Schedule to the Excise Act be repealed and the following substituted therefor:

"

II. CANADIAN BRANDY

On every gallon of the strength of proof, fourteen dollars and twenty-five cents, and so in proportion for any greater or less strength than the strength of proof and for any less quantity than a gallon."

13. Sections 1, 2 and 3 of Part IV of the Schedule to the Excise Act be repealed and the following substituted therefor:

- "1. Manufactured tobacco of all descriptions except cigarettes, per pound actual weight, fifty cents.
2. Cigarettes weighing not more than three pounds per thousand, four dollars and fifty cents per thousand.
3. Cigarettes weighing more than three pounds per thousand, five dollars and fifty cents per thousand."

NOTICE OF WAYS AND MEANS MOTION

CUSTOMS TARIFF

1. That Schedule A to the Customs Tariff be amended by striking out tariff items 23610-1, 44043-1, 44047-1, 69615-1, 70310-1, 70311-1, 70312-1 and 70313-1, and the enumerations of goods and the rates of duty set opposite each of those items, and by inserting in Schedule A to the said Act the following items, enumerations of goods and rates of duty:

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					B.P. Tariff	M.F.N. Tariff	General Tariff
44047-1	Aircraft engines, when imported for use in the equipment of aircraft: When of types or sizes not made in Canada on and after July 1, 1976	Free Free	Free 7½ p.c.	27½ p.c. 27½ p.c.	Free Free (on and after July 1, 1974)	Free 7½ p.c.	27½ p.c. 27½ p.c.
69615-1	Moving picture films, sound or silent, separate sound film track, slides and slide films, positive or negative, and sound recordings for use therewith; Sound recordings for use by educational, scientific or cultural institutions or societies; Sound recordings other than for sale or rental; Models, static and moving; Video tape recordings; Wall charts, maps and posters;						

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					B.P. Tariff	M.F.N. Tariff	General Tariff
70311-1	<p>Valued at not more than <u>one hundred and fifty</u> dollars (including alcoholic beverages not exceeding forty ounces, and tobacco not exceeding fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco) and included in the baggage accompanying the resident of Canada returning from abroad after an absence from Canada of not less than <u>seven</u> days</p> <p>Goods (other than alcoholic beverages, cigars, cigarettes and manufactured tobacco) acquired in any country beyond the continental limits of North America may be entered under this item although they are not included in the baggage accompanying the returning resident if they are declared by him at the time of his return to Canada.</p> <p>The exemption granted under this item shall be extended only to a resident who, upon his return to Canada, establishes in such form and manner as the Minister may specify by regulation that he has been abroad for a minimum period of <u>seven</u> days, which form and manner may differ according to the country visited or the mode of travel used.</p>	Free	Free	Free	Free Various	Free Various	Free Various

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					B.P. Tariff	M.F.N. Tariff	General Tariff
70311-1 (Cont'd)	A resident of Canada shall not be entitled to the exemption granted under this item more than once in a calendar year and he shall not be entitled, with respect to the same trip abroad, to claim an exemption under tariff item 70310-1 if he claims an exemption under this item.						
70312-1	Valued at not more than <u>one hundred and fifty</u> dollars (not including goods otherwise allowed duty-free entry into Canada, nor alcoholic beverages, cigars, cigarettes and manufactured tobacco) and included in the baggage accompanying the resident of Canada returning from abroad after an absence from Canada of not less than forty-eight hours	25 p.c.	25 p.c.	25 p.c.	25 p.c. Various	25 p.c. Various	25 p.c. Various
70313-1	Valued at not more than <u>ten</u> dollars (not including alcoholic beverages, cigars, cigarettes and manufactured tobacco) and included in the baggage accompanying the resident of Canada returning from abroad after an absence from Canada of not less than forty-eight hours	Free	Free	Free	Free Various	Free Various	Free Various
	The exemption granted under this item shall be extended only to a resident who, at the time of his return to Canada, is not entering any other goods under any other item of this heading.						...

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Budget		
					B.P. Tariff	M.F.N. Tariff	General Tariff
(Cont'd)	<p>Goods entitled to entry under any item of this heading shall be exempt from all other imposts notwithstanding the provisions of this Act or any other Act.</p> <p>The Minister by regulation may, notwithstanding any other provision in customs legislation relating to the entry of goods, excuse a returning resident of Canada from any requirement for making a written declaration or entry with respect to goods entitled to entry under any item of this heading.</p> <p>The Governor in Council may, by order, on the recommendation of the Minister of Finance, reduce the maximum value of goods that are entitled to entry under any item of this heading but every order made pursuant to this authority shall be published in the Canada Gazette, and shall cease to have any force or effect with respect to any period following the 180th day from the date of its making or, if Parliament is not then sitting, the 15th day next thereafter that Parliament is sitting, unless not later than that day the order is approved by resolution adopted by both Houses of Parliament.</p>						

...

2. That any enactment founded upon paragraph 1 of this motion shall be deemed to have come into force on the 7th day of May, 1974, and to have applied to all goods mentioned in the said paragraph imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

3. That the provisions of any enactment founded upon paragraphs 1 and 8 of the Notice of Ways and Means Motion relating to the Customs Tariff tabled by the Minister of Finance in the House of Commons on the 1st day of March, 1974 shall be extended for a period of six months from the 1st day of July, 1974 to the 31st day of December, 1974 except as it applies to tariff item 9205-1.