
Budget Papers

May 25, 1976

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Budget Papers



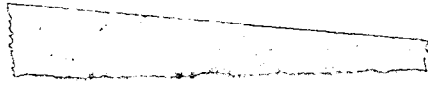
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Budget Paper A

Notices of Ways

and Means Motions

**Notice of Ways
and Means Motion**

Customs Tariff

Notice of Ways and Means Motion Customs Tariff

1. That Schedule A to the *Customs Tariff* be amended by striking out tariff items 704-1, 707-1, 800-1, 805-1, 810-1, 825-1, 835-1, 1001-1, 1805-1, 2000-1, 2100-1, 2200-1, 2500-1, 4505-1, 4600-1, 5100-1, 6300-1, 6400-1, 6500-1, 6505-1, 6600-1, 6605-1, 6610-1, 6700-1, 8704-1, 8706-1, 8717-1, 8720-1, 8722-1, 8728-1, 8901-1, 9001-1, 9002-1, 9004-1, 9010-1, 9015-1, 9021-1, 9030-1, 9032-1, 9100-1, 9210-1, 9800-1, 10525-2, 11300-1, 12100-1, 12200-1, 12600-1, 12900-1, 13400-1, 13405-1, 13410-1, 13415-1, 13420-1, 13425-1, 13430-1, 13435-1, 13440-1, 13445-1, 13500-1, 13505-1, 13600-1, 13650-1, 13700-1, 13705-1, 14000-1, 15205-1, 15215-1, 16101-1, 16102-1, 18702-1, 22001-1, 22001-2, 22003-1, 22005-1, 22800-1, 23215-1, 23400-1, 28700-1, 28900-1, 28900-2, 32305-1, 32603-1, 32606-1, 32700-1, 32800-1, 35405-1, 35410-1, 41400-1, 41405-1, 41500-1, 41535-1, 42505-1, 42520-1, 42525-1, 42903-1, 42907-1, 42907-2, 42908-1, 43115-1, 43120-1, 43135-1, 43140-1, 43200-1, 43205-1, 43210-1, 43300-1, 43829-1, 44034-1, 44405-1, 44500-1, 44502-1, 44503-1, 44504-1, 44520-1, 44606-1, 44900-1, 45100-1, 45110-1, 45116-1, 46205-1, 46210-1, 46300-1, 46305-1, 46310-1, 51100-1, 51105-1, 51110-1, 51115-1, 51120-1, 51400-1, 59730-1, 62200-2, 62200-3, 65500-1, 65505-1, 65510-1, 65811-1, 92936-1, 92937-1, 92938-1, 92939-1, 92940-1, 92941-1, 92942-1, 92942-4, 92943-1, 92944-1 and 93402-1, 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 Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973			
					B.P. Tariff	M.F.N. Tariff	General Tariff	
	Meats, fresh, n.o.p.:							
704-1	Pork per pound	Free	Free	5 cts.	0.50 ct.	0.50 ct.	5 cts.	
707-1	Edible meat offal of all animals per pound	Free	Free	5 cts.	0.5 ct.	0.5 ct.	5 cts.	
800-1	Canned beef	15 p.c.	15 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.	
805-1	Canned pork	10 p.c.	10 p.c.	35 p.c.	15 p.c.	25 p.c.	35 p.c.	
810-1	Canned hams	10 p.c.	10 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.	
825-1	Canned meats, n.o.p.	10 p.c.	10 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.	
835-1	Extracts of meat and fluid beef, not medicated	Free	10 p.c.	35 p.c.	10 p.c.	20 p.c.	35 p.c.	
	Meats, prepared or preserved, other than canned:							
1001-1	Bacon, hams, shoulders and other pork per pound	Free	Free	5 cts.	Free	1 3/4 cts.	5 cts.	
1805-1	Peanut butter per pound	2 cts.	2 cts.	7 cts.	3 cts.	4 cts.	7 cts.	
2000-1	Cocoa paste or "liquor" and chocolate paste or "liquor" not sweetened, in blocks or cakes per pound	Free	Free	5 cts.	1 ct.	1 ct.	5 cts.	
2100-1	Cocoa paste or "liquor" and chocolate paste or "liquor" sweetened, in blocks or cakes, not less than two pounds in weight per pound	1 ct.	1 ct.	5 1/2 cts.	2 cts.	2 cts.	5 1/2 cts.	
2200-1	Preparations of cocoa or chocolate in powder form	10 p.c.	10 p.c.	35 p.c.	15 p.c.	15 p.c.	35 p.c.	

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
2500-1	Chicory, kiln-dried, roasted or ground per pound	Free	Free	5 cts.	1 ct.	1 ct.	5 cts.
4505-1	Prepared cereal foods, in packages not exceeding twenty-five pounds weight each	10 p.c.	10 p.c.	27 1/2 p.c.	17 1/2 p.c.	17 1/2 p.c.	27 1/2 p.c.
4600-1	Prepared cereal foods, n.o.p.	7 1/2 p.c.	7 1/2 p.c.	20 p.c.	12 1/2 p.c.	12 1/2 p.c.	20 p.c.
5100-1	Pot, pearl, rolled, roasted or ground barley	10 p.c.	10 p.c.	30 p.c.	20 p.c.	20 p.c.	30 p.c.
6300-1	Rice, cleaned per one hundred pounds	25 cts.	25 cts.	\$1.00	50 cts.	50 cts.	\$1.00
	When in packages weighing two pounds each, or less, the weight of such packages to be included in the weight for duty.						
6400-1	Sago and tapioca	Free	Free	27 1/2 p.c.	10 p.c.	10 p.c.	27 1/2 p.c.
6500-1	Biscuits, not sweetened	7 1/2 p.c.	7 1/2 p.c.	25 p.c.	12 1/2 p.c.	12 1/2 p.c.	25 p.c.
6505-1	Special dietary breads and biscuits under regulations of the Department of National Health and Welfare	Free	Free	10 p.c.	Free	5 p.c.	10 p.c.
6600-1	Biscuits, sweetened	7 1/2 p.c.	7 1/2 p.c.	30 p.c.	12 1/2 p.c.	12 1/2 p.c.	30 p.c.
6605-1	Biscuits, sweetened or unsweetened, valued at not less than 20 cents per pound, said value to be based on the net weight and to include the value of the usual retail package	Free	7 1/2 p.c.	30 p.c.	Free	12 1/2 p.c.	30 p.c.
6610-1	Pretzels	Free	7 1/2 p.c.	30 p.c.	Free	12 1/2 p.c.	30 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
6700-1	Macaroni and vermicelli, containing no egg or other added ingredients per one hundred pounds	Free	30 cts.	\$1.50	Free	62 1/2 cts.	\$1.50
	When in packages weighing two pounds each, or less, the weight of such packages to be included in the weight for duty.						
	Vegetables, fresh, in their natural state, the weight of the packages to be included in the weight for duty:						
8704-1	Beets per pound	Free	1 ct. or Free	1 ct. or Free	Free	1 ct. or 10 p.c.	1 ct. or 10 p.c.
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 26 weeks which may be divided into two separate periods, and the Free rate shall apply whenever the specific duty is not in effect.						
8706-1	Cabbage per pound	Free	9/10 ct. or Free	9/10 ct. or Free	Free	Free or 9/10 ct. or 10 p.c.	Free or 9/10 ct. or 10 p.c.
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 30 weeks which may be divided into two separate periods, and the Free rate shall apply whenever the specific duty is not in effect.						
8717-1	Onions, n.o.p. per pound	Free	1 1/2 cts. or Free	1 1/2 cts. or Free	Free	1 1/2 cts. or 10 p.c.	1 1/2 cts. or 10 p.c.
	In any 12 months period ending 31st March, the specific duty shall not be maintained in force in excess of 44 weeks which may be divided into two separate periods, and the Free rate shall apply whenever the specific duty is not in effect.						

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
8720-1	Peas, green per pound	Free	2 cts. or Free	2 cts. or Free	Free	2 cts. or 10 p.c. or Free	2 cts. or 10 p.c. or Free
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 12 weeks, and the Free rate shall apply whenever the specific duty is not in effect.						
8722-1	Rhubarb per pound	Free	1/2 ct. or Free	1/2 ct. or Free	Free	1/2 ct. or 10 p.c.	1/2 ct. or 10 p.c.
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 10 weeks, and the Free rate shall apply whenever the specific duty is not in effect.						
8728-1	Green onions per pound	Free	1 1/2 cts. or Free	1 1/2 cts. or Free	Free	1 1/2 cts. or 5 p.c.	1 1/2 cts. or 10 p.c.
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 44 weeks which may be divided into two separate periods, and the Free rate shall apply whenever the specific duty is not in effect.						
	Vegetables, prepared, in air-tight cans or other air-tight containers, the weight of the containers to be included in the weight for duty:						
8901-1	Asparagus	7 1/2 p.c.	17 1/2 p.c.	30 p.c.	7 1/2 p.c.	22 1/2 p.c.	30 p.c.
	Vegetables, frozen:						
9001-1	Asparagus	15 p.c.	17 1/2 p.c.	30 p.c.	15 p.c.	22 1/2 p.c.	30 p.c.
9002-1	Brussels sprouts	15 p.c.	15 p.c.	30 p.c.	15 p.c.	22 1/2 p.c.	30 p.c.
9004-1	N.o.p.	10 p.c.	15 p.c.	30 p.c.	10 p.c.	17 1/2 p.c.	30 p.c.
9010-1	Vegetables, dried, desiccated, or dehydrated, including vegetable flour, n.o.p.	12 1/2 p.c.	12 1/2 p.c.	30 p.c.	15 p.c.	17 1/2 p.c.	30 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
9015-1	Vegetables, pickled or preserved in salt, brine, oil or in any other manner, n.o.p.	12 1/2 p.c.	12 1/2 p.c.	35 p.c.	12 1/2 p.c.	17 1/2 p.c.	35 p.c.
9021-1	Tomato juice	12 1/2 p.c.	17 1/2 p.c.	35 p.c.	12 1/2 p.c.	20 p.c.	35 p.c.
9030-1	Potatoes, pre-cooked, without admixture beyond the addition of preservatives, in powder, flake or granular form	12 1/2 p.c.	12 1/2 p.c.	25 p.c.	15 p.c.	15 p.c.	25 p.c.
9032-1	Potatoes, pre-cooked, with admixture beyond the addition of preservatives ..	12 1/2 p.c.	12 1/2 p.c.	25 p.c.	15 p.c.	17 1/2 p.c.	25 p.c.
9100-1	Soups, soup rolls, tablets, cubes, or other soup preparations, n.o.p.	12 1/2 p.c.	12 1/2 p.c.	35 p.c.	15 p.c.	17 1/2 p.c.	35 p.c.
	Fruits, fresh, in their natural state, the weight of the packages to be included in the weight for duty:						
9210-1	Raspberries and loganberries per pound	Free	2 cts. or Free	2 cts. or Free	Free	2 cts. or 10 p.c.	2 cts. or 10 p.c.
	In any 12 month period ending 31st March, the specific duty shall not be maintained in force in excess of 6 weeks, and the Free rate shall apply whenever the specific duty is not in effect.						
9800-1	Bananas per one hundred pounds	Free	Free	\$1.00	Free	50 cts.	\$1.00
10525-2	Melons, pickled or preserved in salt, brine, oil, or any other manner, n.o.p. ...	10 p.c.	10 p.c.	35 p.c.	15 p.c.	15 p.c.	35 p.c.
11300-1	Cocoanut, desiccated, sweetened or not per pound	Free	Free	6 cts.	Free	1 ct.	6 cts.
12100-1	Fish preserved in oil, n.o.p.	15 p.c.	15 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.
12200-1	Herring (not including kippered herring in sealed containers) packed in oil or otherwise, in sealed containers	5 p.c.	5 p.c.	35 p.c.	12 1/2 p.c.	12 1/2 p.c.	35 p.c.

Tariff Item		British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
12600-1	Clams in sealed containers	10 p.c.	10 p.c.	40 p.c.	17 1/2 p.c.	20 p.c.	40 p.c.
12900-1	Crabs in sealed containers	10 p.c.	10 p.c.	40 p.c.	15 p.c.	15 p.c.	40 p.c.
			Cts.	Cts.	Cts.	Cts.	Cts.
13400-1	Sugar, n.o.p., under such regulations as the Minister may prescribe, When not exceeding seventy-six degrees of polarization per one hundred pounds	Free	50.224	70.851	20.627	70.851	70.851
	When exceeding seventy-six degrees but not exceeding seventy-seven degrees . per one hundred pounds	Free	52.566	73.213	20.647	73.213	73.213
	When exceeding seventy-seven degrees but not exceeding seventy-eight degrees per one hundred pounds	Free	54.907	75.574	20.667	75.574	75.574
	When exceeding seventy-eight degrees but not exceeding seventy-nine degrees per one hundred pounds	Free	57.249	77.936	20.687	77.936	77.936
	When exceeding seventy-nine degrees but not exceeding eighty degrees per one hundred pounds	Free	59.591	80.298	20.707	80.298	80.298
	When exceeding eighty degrees but not exceeding eighty-one degrees per one hundred pounds	Free	61.932	82.659	20.727	82.659	82.659
	When exceeding eighty-one degrees but not exceeding eighty-two degrees per one hundred pounds	Free	64.274	85.021	20.747	85.021	85.021
	When exceeding eighty-two degrees but not exceeding eighty-three degrees . . per one hundred pounds	Free	66.616	87.383	20.767	87.383	87.383

Tariff Item		British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
			Cts.	Cts.	Cts.	Cts.	Cts.
13400-1 (Cont'd)	When exceeding eighty-three degrees but not exceeding eighty-four degrees . . per one hundred pounds	Free	69.183	90.040	20.857	90.040	90.040
	When exceeding eighty-four degrees but not exceeding eighty-five degrees . . . per one hundred pounds	Free	71.750	92.697	20.947	92.697	92.697
	When exceeding eighty-five degrees but not exceeding eighty-six degrees per one hundred pounds	Free	74.317	95.353	21.036	95.353	95.353
	When exceeding eighty-six degrees but not exceeding eighty-seven degrees . . . per one hundred pounds	Free	76.884	98.010	21.126	98.010	98.010
	When exceeding eighty-seven degrees but not exceeding eighty-eight degrees . . per one hundred pounds	Free	79.451	\$1.00963	21.512	\$1.00963	\$1.00963
	When exceeding eighty-eight degrees but not exceeding eighty-nine degrees . . per one hundred pounds	Free	82.018	\$1.03915	21.897	\$1.03915	\$1.03915
	When exceeding eighty-nine degrees but not exceeding ninety degrees per one hundred pounds	Free	84.585	\$1.07457	22.872	\$1.07457	\$1.07457
	When exceeding ninety degrees but not exceeding ninety-one degrees per one hundred pounds	Free	87.152	\$1.11000	23.848	\$1.11000	\$1.11000
	When exceeding ninety-one degrees but not exceeding ninety-two degrees . . . per one hundred pounds	Free	89.719	\$1.14542	24.823	\$1.14542	\$1.14542
	When exceeding ninety-two degrees but not exceeding ninety-three degrees . . per one hundred pounds	Free	92.286	\$1.18085	25.799	\$1.18085	\$1.18085

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973			
				B.P. Tariff	M.F.N. Tariff	General Tariff	
		Cts.	Cts.	Cts.	Cts.	Cts.	
13400-1 (Cont'd)	When exceeding ninety-three degrees but not exceeding ninety-four degrees . . . per one hundred pounds	Free	94.865	\$1.21627	26.762	\$1.21627	\$1.21627
	When exceeding ninety-four degrees but not exceeding ninety-five degrees . . . per one hundred pounds	Free	97.433	\$1.25170	27.737	\$1.25170	\$1.25170
	When exceeding ninety-five degrees but not exceeding ninety-six degrees . . . per one hundred pounds	Free	\$1.00	\$1.28712	28.712	\$1.28712	\$1.28712
	When exceeding ninety-six degrees but not exceeding ninety-seven degrees . . . per one hundred pounds	Free	\$1.02567	\$1.32255	29.688	\$1.32255	\$1.32255
	When exceeding ninety-seven degrees but not exceeding ninety-eight degrees . . . per one hundred pounds	Free	\$1.05134	\$1.35798	30.664	\$1.35798	\$1.35798
	When exceeding ninety-eight degrees but not exceeding ninety-nine degrees . . . per one hundred pounds	Free	\$1.15966	\$1.47606	31.64	\$1.47606	\$1.47606
	When exceeding ninety-nine degrees but less than ninety-nine and five-tenths degrees per one hundred pounds	Free	\$1.12	\$1.47606	35.606	\$1.47606	\$1.47606
13410-1	Sugar, when of a polarization of ninety-nine and five-tenths degrees or more; soft sugars such as brown, yellow or golden sugar; icing sugar; all the fore- going under such regulations as the Minister may prescribe per one hundred pounds	80 cts.	\$1.20	\$1.60	\$1.09	\$1.89	\$1.89
13415-1	Sugar, for use in the manufacture of wine per one hundred pounds	0.8 ct.	1.2 cts.	\$1.60	\$0.109	\$0.189	\$1.89

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
13420-1	Invert sugar, and syrups being the product of the sugar cane or beet, and all imitations thereof or substitutes therefor, in which the percentage of the total of reducing sugars after inversion is seventy-five per cent or greater of the total solids by weight, not including syrups in receptacles where the gross weight of the receptacle and contents does not exceed sixty pounds: When the total of reducing sugars after inversion is equivalent to not more than sixty-five per cent by weight of the total syrup per one hundred pounds	50 cts.	75 cts.	\$1.00	68 cts.	\$1.23	\$1.23
	Plus, for each additional one per cent or fraction thereof in excess of sixty-five per cent by weight of the total syrup . . . per one hundred pounds	0.75 ct.	1 ct.	1.5 cts.	Various	Various	Various
13425-1	Syrups, the product of the sugar cane, in which the percentage of the total of reducing sugars after inversion is less than seventy-five per cent of the total solids by weight per gallon	Free	Free	1.5 cts.	Free Various	1 ct. Various	1 1/2 cts. Various
13430-1	Syrups, the product of the sugar beet, in which the percentage of the total of reducing sugars after inversion is less than seventy-five per cent of the total solids by weight per gallon	1 ct.	1 ct.	7 cts.	1 ct. Various	1 ct. Various	7 cts. Various
13435-1	Concentrated sugar cane juice, partly inverted, of the kind known as fancy molasses, for human consumption only per gallon	Free	1 ct.	1.5 cts.	Free	1 ct.	1 1/2 cts.
13440-1	Molasses powder, without admixture or with added colouring or anti-caking agent per one hundred pounds	25 cts.	30 cts.	50 cts.	35 cts.	45 cts.	50 cts.
13445-1	Syrups, the product of the sugar cane or beet, and all imitations thereof or substitutes therefor, n.o.p. per gallon	3.5 cts.	4.5 cts.	7 cts.	5 cts.	6 1/2 cts.	7 cts.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
	Fruit juices and fruit syrups, n.o.p., namely:						
15205-1	Pineapple juice	Free	Free	25 p.c.	5 p.c.	5 p.c.	25 p.c.
15215-1	Dehydrated citrus fruit juices with or without stabilizers or sugar	Free	Free	25 p.c.	2 1/2 p.c.	5 p.c.	25 p.c.
	Perfumed spirits, bay rum, cologne and lavender waters, lotions, hair, tooth and skin washes, and other toilet preparations containing spirits of any kind:						
16101-1	When in bottles or flasks containing not more than four ounces each	15 p.c.	15 p.c.	50 p.c.	20 p.c.	20 p.c.	50 p.c.
16102-1	When in bottles, flasks or other packages, containing more than four ounces each but not more than, per gallon	15 p.c. \$2.00	15 p.c.	50 p.c.	25 p.c. \$2.00	25 p.c.	50 p.c.
18702-1	Films which otherwise would be classified under tariff item 18700-1	Free	12 1/2 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.
22001-1	All medicinal and pharmaceutical preparations, compounded of more than one substance, whether or not containing alcohol, including patent and proprietary preparations, tinctures, pills, powders, troches, lozenges, filled capsules, tablets, syrups, cordials, bitters, anodynes, tonics, plasters, liniments, salves, ointments, pastes, drops, waters, essences and oils	10 p.c.	10 p.c.	25 p.c.	15 p.c.	15 p.c.	25 p.c.
	Any article in this item containing more than forty per cent of proof spirit shall be rated for duty at per gallon and	\$1.50 15 p.c.	\$1.50 15 p.c.	\$2.00 25 p.c.	\$1.50 15 p.c.	\$1.50 15 p.c.	\$2.00 25 p.c.
22001-2	Sulfamethylthiadiazole, in tablet form	10 p.c.	10 p.c.	25 p.c.	12 1/2 p.c.	12 1/2 p.c.	25 p.c.
22003-1	Drugs, n.o.p.	10 p.c.	10 p.c.	25 p.c.	15 p.c.	15 p.c.	25 p.c.
22005-1	Drugs, n.o.p., of a kind not produced in Canada	Free	10 p.c.	25 p.c.	Free	15 p.c.	25 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
22800-1	Soap powders, powdered soap, mineral soap, and soap, n.o.p.	10 p.c.	10 p.c.	32 1/2 p.c.	15 p.c.	17 1/2 p.c.	32 1/2 p.c.
23215-1	Gelatine, edible	7 1/2 p.c.	15 p.c.	35 p.c.	7 1/2 p.c.	20 p.c.	35 p.c.
23400-1	Perfumery, including toilet preparations, non-alcoholic, namely: hair oils, tooth and other powders and washes, pomatums, pastes and all other perfumed preparations, n.o.p., used for the hair, mouth or skin	15 p.c.	15 p.c.	40 p.c.	15 p.c.	20 p.c.	40 p.c.
28700-1	All tableware of china, porcelain, semi-porcelain or white granite, but not to include tea-pots, jugs and similar articles of the type commonly known as earthenware	Free	15 p.c.	35 p.c.	Free	20 p.c.	35 p.c.
28900-1	Baths, bathtubs, basins, closets, closet seats and covers, closet tanks, lavatories, urinals, sinks and laundry tubs of earthenware, stone, cement, clay or other material, n.o.p.	12 1/2 p.c.	15 p.c.	35 p.c.	12 1/2 p.c.	20 p.c.	35 p.c.
28900-2	Baths, bathtubs, urinals, sinks and laundry tubs of earthenware, stone, cement, clay or other material, n.o.p.	12 1/2 p.c.	15 p.c.	35 p.c.	12 1/2 p.c.	20 p.c.	35 p.c.
32305-1	Mirrors of glass, bevelled or not, and framed or not, n.o.p.	15 p.c.	15 p.c.	30 p.c.	17 1/2 p.c.	20 p.c.	30 p.c.
32603-1	Demijohns or carboys, bottles, flasks, phials, jars and balls, of glass, not cut, n.o.p.; lamp chimneys of glass, n.o.p.; decanters and machine-made tumblers of glass, not cut nor decorated, n.o.p.	15 p.c.	15 p.c.	32 1/2 p.c.	15 p.c.	20 p.c.	32 1/2 p.c.
32606-1	Glass tableware, n.o.p., and illuminating glassware, n.o.p.	10 p.c.	15 p.c.	32 1/2 p.c.	10 p.c.	20 p.c.	32 1/2 p.c.
32700-1	Spectacles; eyeglasses, and ground or finished spectacle or eyeglass lenses, n.o.p.	12 1/2 p.c.	12 1/2 p.c.	30 p.c.	17 1/2 p.c.	17 1/2 p.c.	30 p.c.
32800-1	Spectacle and eyeglass frames and parts thereof, n.o.p.	12 1/2 p.c.	12 1/2 p.c.	20 p.c.	15 p.c.	15 p.c.	20 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
35405-1	Kitchen or household hollow-ware of aluminum, n.o.p.	15 p.c.	15 p.c.	30 p.c.	17 1/2 p.c.	17 1/2 p.c.	30 p.c.
35410-1	Kitchen or household hollow-ware of nickel, n.o.p.	15 p.c.	15 p.c.	30 p.c.	17 1/2 p.c.	17 1/2 p.c.	30 p.c.
41400-1	Typewriters	Free	15 p.c.	25 p.c.	Free	20 p.c.	25 p.c.
41405-1	Parts of typewriters	Free	5 p.c.	25 p.c.	Free	7 1/2 p.c.	25 p.c.
41500-1	Electric vacuum cleaners and attachments therefor; hand vacuum cleaners; and complete parts of all the foregoing, including suction hose, n.o.p.	5 p.c.	15 p.c.	25 p.c.	5 p.c.	20 p.c.	25 p.c.
41535-1	Carpet sweepers	10 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.
42505-1	Power lawn mowers, self-propelled or not, whether or not containing the power unit	15 p.c.	15 p.c.	32 1/2 p.c.	15 p.c.	17 1/2 p.c.	32 1/2 p.c.
42520-1	Air-cooled internal combustion engines of greater than one and one-half horsepower rating, and parts thereof; parts of power lawn mowers; all the foregoing for use in the manufacture or repair of power lawn mowers	5 p.c.	7 1/2 p.c.	32 1/2 p.c.	5 p.c.	10 p.c.	32 1/2 p.c.
42525-1	Air-cooled internal combustion engines of not greater than one and one-half horsepower rating, and parts thereof, when for use in the manufacture or repair of power lawn mowers	Free	7 1/2 p.c.	30 p.c.	Free	10 p.c.	30 p.c.
	Cutlery of iron or steel, plated or not:						
42903-1	Penknives, jack-knives and pocket knives of all kinds	Free	15 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.
42907-1	Razors and complete parts thereof; razor blades, n.o.p.	Free	15 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.
42907-2	Razors and complete parts thereof, n.o.p.	Free	15 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
42908-1	Safety razor blades	Free	15 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.
43115-1	Web saws and parts thereof	7 1/2 p.c.	15 p.c.	35 p.c.	7 1/2 p.c.	20 p.c.	35 p.c.
43120-1	Adzes, anvils, vises, cleavers, hatchets, saws, augers, bits, drills, screwdrivers, planes, spokeshaves, chisels, mallets, metal wedges, wrenches, sledges, hammers, crowbars, cantdogs, and track tools, picks, mattocks, and eyes or polls for the same	10 p.c.	15 p.c.	35 p.c.	10 p.c.	20 p.c.	35 p.c.
43135-1	Measuring rules and tapes of all kinds	15 p.c.	15 p.c.	30 p.c.	15 p.c.	17 1/2 p.c.	30 p.c.
43140-1	Files and rasps	Free	15 p.c.	35 p.c.	Free	17 1/2 p.c.	35 p.c.
43200-1	Hollow-ware, of iron or steel, coated or not, n.o.p.	10 p.c.	15 p.c.	30 p.c.	10 p.c.	17 1/2 p.c.	30 p.c.
43205-1	Kitchen and dairy hollow-ware of iron or steel, coated with tin, including cans for shipping milk or cream, not painted, japanned or decorated	15 p.c.	15 p.c.	30 p.c.	15 p.c.	17 1/2 p.c.	30 p.c.
43210-1	Hollow-ware, of iron or steel, coated with vitreous enamel	15 p.c.	15 p.c.	35 p.c.	15 p.c.	17 1/2 p.c.	35 p.c.
43300-1	Baths, bathtubs, basins, closets, lavatories, urinals, sinks, and laundry tubs of iron or steel, coated or not	5 p.c.	15 p.c.	35 p.c.	5 p.c.	20 p.c.	35 p.c.
43829-1	Parts, n.o.p., electro-plated or not, whether finished or not, for automobiles, motor vehicles, electric trackless trolley buses, fire fighting vehicles, ambulances and hearses, or chassis enumerated in tariff items 42400-1 and 43803-1, including engines, but not including ball or roller bearings, wireless receiving sets, die castings of zinc, electric storage batteries, parts of wood, tires and tubes or parts of which the component material of chief value is rubber	Free	12 1/2 p.c.	35 p.c.	Free	15 p.c.	35 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
43901-1	<i>Tricycles which otherwise would be classified under tariff item 43900-1</i>	15 p.c.	15 p.c.	30 p.c.	20 p.c.	25 p.c.	30 p.c.
44034-1	Trawls, trawling spoons, fly hooks, hooks, sinkers, swivels, bait, sportsmen's fishing reels, fishing rods, and fishing tackle, n.o.p.	Free	15 p.c.	30 p.c.	Free	17 1/2 p.c.	30 p.c.
44405-1	Gas, coal oil or other lighting fixtures and appliances, n.o.p., including tips, burners, collars and galleries; gas mantles and incandescent gas burners; complete parts of all the foregoing	15 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.
44500-1	Electric light fixtures and appliances, n.o.p., and complete parts thereof . . .	15 p.c.	15 p.c.	30 p.c.	17 1/2 p.c.	20 p.c.	30 p.c.
44502-1	Electric head, side and tail lights, n.o.p.; electric torches or flashlights and complete parts therefor	15 p.c.	15 p.c.	30 p.c.	17 1/2 p.c.	20 p.c.	30 p.c.
44503-1	Fluorescent and high intensity discharge ballasts, which otherwise would be classified under tariff item 44500-1	17 1/2 p.c.	20 p.c.	30 p.c.	17 1/2 p.c.	20 p.c.	30 p.c.
44504-1	Electric arc lamps and incandescent electric light lamps, n.o.p.	15 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.
44520-1	Electric sad irons and complete parts thereof	12 1/2 p.c.	15 p.c.	27 1/2 p.c.	12 1/2 p.c.	20 p.c.	27 1/2 p.c.
44606-1	Steel bicycle rims, not enamelled nor plated	Free	12 1/2 p.c.	35 p.c.	Free	17 1/2 p.c.	35 p.c.
44900-1	Steel wool, including steel wool impregnated with soap or in retail packages containing a cake of soap	Free	10 p.c.	20 p.c.	Free	15 p.c.	20 p.c.
45100-1	Buckles, clasps, eyelets, hooks and eyes, dome, snap or other fasteners of iron, steel, brass or other metal, coated or not, n.o.p. (not being jewellery); parts of all the foregoing	15 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
45110-1	Needles, of any material or kind, n.o.p.	10 p.c.	15 p.c.	35 p.c.	10 p.c.	20 p.c.	35 p.c.
	Pins manufactured from wire of any metal:						
45116-1	N.o.p.	15 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.
46205-1	Cameras, n.o.p., of a class or kind made in Canada; complete parts thereof . .	7 1/2 p.c.	10 p.c.	30 p.c.	7 1/2 p.c.	15 p.c.	30 p.c.
46210-1	Cameras, n.o.p., of a class or kind not made in Canada; complete parts thereof	5 p.c.	10 p.c.	30 p.c.	5 p.c.	15 p.c.	30 p.c.
46300-1	Still picture projectors, and slides and film-strips therefor, n.o.p.	Free	10 p.c.	25 p.c.	Free	15 p.c.	25 p.c.
46305-1	Motion picture projectors, arc lamps for motion picture work, motion picture or theatrical spot lights, light effect machines, portable motion picture projectors with or without sound equipment; electric rectifiers or generators designed for use with motion picture projectors; parts of all the foregoing, not including electric light bulbs, tubes, or exciter lamps	Free	10 p.c.	35 p.c.	Free	15 p.c.	35 p.c.
46310-1	Still picture projectors combined with sound equipment	10 p.c.	10 p.c.	30 p.c.	10 p.c.	15 p.c.	30 p.c.
51100-1	Golf clubs and finished parts thereof; racquets and racquet frames and baseball bats; balls of all kinds for use in sports, games or athletics, n.o.p. .	15 p.c.	15 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.
51105-1	Cricket bats, balls, gloves and leg guards	Free	15 p.c.	35 p.c.	Free	20 p.c.	35 p.c.
51110-1	Skis	15 p.c.	15 p.c.	35 p.c.	20 p.c.	20 p.c.	35 p.c.
51115-1	Ski fittings	15 p.c.	15 p.c.	35 p.c.	15 p.c.	20 p.c.	35 p.c.
51120-1	Ski poles	15 p.c.	15 p.c.	35 p.c.	17 1/2 p.c.	17 1/2 p.c.	35 p.c.

Tariff Item		British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
51400-1	Coffins and caskets, and metal parts thereof	15 p.c.	15 p.c.	25 p.c.	17 1/2 p.c.	20 p.c.	25 p.c.
59730-1	Phonograph records	15 p.c.	15 p.c.	30 p.c.	15 p.c.	20 p.c.	30 p.c.
62200-2	Baskets of bamboo	12 1/2 p.c.	15 p.c.	40 p.c.	12 1/2 p.c.	17 1/2 p.c.	40 p.c.
62200-3	Baskets of interwoven vegetable fibres	12 1/2 p.c.	15 p.c.	40 p.c.	12 1/2 p.c.	17 1/2 p.c.	40 p.c.
65500-1	Pens, n.o.p., penholders and rulers, of all kinds	12 1/2 p.c.	15 p.c.	27 1/2 p.c.	12 1/2 p.c.	20 p.c.	27 1/2 p.c.
65505-1	Lead pencils and crayons, n.o.p.	10 p.c.	15 p.c.	35 p.c.	10 p.c.	20 p.c.	35 p.c.
65510-1	Crayons of chalk or chalk-like material, coloured or not	10 p.c.	15 p.c.	35 p.c.	10 p.c.	20 p.c.	35 p.c.
	Magnetic recording tape, n.o.p., manufactured from synthetic resins or cellulose plastics:						
65811-1	Recorded	15 p.c.	15 p.c.	25 p.c.	15 p.c.	20 p.c.	25 p.c.
92936-1	92936 – Sulphonamides	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92937-1	92937 – Sultones and sultams	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92938-1	92938 – Provitamins and vitamins, natural or reproduced by synthesis (including natural concentrates), derivatives thereof used primarily as vitamins, and intermixtures of the foregoing, whether or not in any solvent.	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92939-1	92939 – Hormones, natural or reproduced by synthesis, and derivatives thereof, used primarily as hormones	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to February 20, 1973		
					B.P. Tariff	M.F.N. Tariff	General Tariff
	92940 – Enzymes:						
92940-1	Other than the following	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92941-1	92941 – Glycosides, natural or reproduced by synthesis, and their salts, ethers, esters and other derivatives	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
	92942 – Vegetable alkaloids, natural or reproduced by synthesis, and their salts, ethers, esters and other derivatives:						
92942-1	Other than the following	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92942-4	Caffeine and its salts	Free	10 p.c.	25 p.c.	Free	12 1/2 p.c.	25 p.c.
92943-1	92943 – Sugars, chemically pure, other than sucrose and glucose, but including lactose; sugar ethers and sugar esters, and their salts, other than products of headings 92939, 92941 and 92942	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
92944-1	92944 – Antibiotics	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.
93402-1	93402 – Organic surface-active agents; surface-active preparations and washing preparations, whether or not containing soap	10 p.c.	10 p.c.	25 p.c.	10 p.c.	15 p.c.	25 p.c.

2. That Schedule A to the *Customs Tariff* be further amended by striking out tariff items 18100-1, 20500-1, 22010-1, 40962-1, 41233-1, 44043-1, 44047-1, 70200-1 and 71100-8, and the enumeration 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			
6510-1	<i>Low protein and protein-free products, namely: biscuits, breads, rusks and like baked goods, alimentary pastes and porridge preparations; all the foregoing when certified by the Department of National Health and Welfare that such goods are special low protein or protein-free dietary products</i>			Free	Free	10 p.c.	10 p.c. Free Various	10 p.c. Free Various	27 1/2 p.c. 10 p.c. Various
7805-1	<i>Rosebushes for use by florists or nurserymen exclusively in the production of cut flowers</i>			Free	Free	Free	1 1/2 cts. each Free	3 cts. each Free	7 cts. each 20 p.c.
18100-1	Bank notes, bonds, bills of exchange, cheques, promissory notes, drafts and all similar work, unsigned, and cards or other commercial blank forms printed or lithographed, or printed from steel or copper or other plates; printed matter, n.o.p.			17 1/2 p.c.	20 p.c.	35 p.c.	17 1/2 p.c.	20 p.c.	35 p.c.
20500-1	Roots, medicinal, namely: alkanet, <i>ginseng</i> , crude, crushed or ground; aconite, calumba, folia digitalis, gentian, jalap, ipecacuanha, iris, orris-root liquorice, sarsaparilla, squills, taraxacum, rhubarb and valerian, unground			Free	Free	Free	Free Free	Free 10 p.c.	Free 25 p.c.
22010-1	<i>Mixtures of amino acids or mixtures of amino acids and protein hydrolysates, with or without added minerals, vitamins, fats or carbohydrates, being dietary preparations specially compounded for persons afflicted with amino acid disorders</i>			Free	Free	25 p.c.	Free 10 p.c.	Free 10 p.c.	25 p.c. 25 p.c.
29647-1	Micronized talc, dolomite and mica, of a particle size not exceeding twenty microns			Free	5 p.c.	25 p.c.	Free	5 p.c.	25 p.c.
35122-1	Stainless steel powder for use as filter media in the spinneret pack used in the production of man-made fibres			Free	Free	35 p.c.	10 p.c.	17 1/2 p.c.	35 p.c.

Tariff Item		British Prefer- ential 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
40962-1	Trickle irrigation systems for use on the farm; sprinkle or trickle watering systems for use in greenhouses; parts of the foregoing	Free	Free	25 p.c.	Free	Free	25 p.c.
					2 1/2 p.c.	15 p.c.	35 p.c.
					10 p.c.	17 1/2 p.c.	35 p.c.
					15 p.c.	17 1/2 p.c.	30 p.c.
					17 1/2 p.c.	17 1/2 p.c.	25 p.c.
					(on and after July 1, 1976)		
40964-1	<i>Electric or radio apparatus designed to identify livestock and record their consumption of feed on an individual basis; parts thereof</i>	Free	Free	30 p.c.	15 p.c.	17 1/2 p.c.	30 p.c.
41233-1	Sheets or plates of aluminum or plastic, photopolymer coated, for the production of printing plates, materials for such plates, for use in the reproduction of material in newspapers by the letterpress printing process	Free	Free	25 p.c.	Free	Free	25 p.c.
					10 p.c.	15 p.c.	25 p.c.
					15 p.c.	17 1/2 p.c.	25 p.c.
					(on and after July 1, 1976)		
41450-1	<i>Non-mechanical ballot holders, for use by voters, whether alone or with punches, cases or stands, specially designed for use therewith</i>	Free	Free	30 p.c.	15 p.c.	17 1/2 p.c.	30 p.c.
42701-1	<i>Articles which otherwise would be classified under tariff item 42700-1, namely: compressor sets and electricity generating sets; accessories, attachments and control equipment for use therewith; parts of the foregoing</i>	2 1/2 p.c.	15 p.c.	35 p.c.	2 1/2 p.c.	15 p.c.	35 p.c.

Except that in the case of any such goods that are the growth, produce or manufacture of the United Kingdom of Great Britain and Northern Ireland, the Channel Islands, the Isle of Man, or Eire, the Most-Favoured-Nation Tariff applies.

Tariff Item	British Prefer- ential 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	
<p><i>Except that in the case of the importation into Canada of any goods enumerated in this item, the Governor in Council on the recommendation of the Minister of Industry, Trade and Commerce may, whenever he considers that it is in the public interest and that the goods are not available from production in Canada, remit the duty specified in this item applicable to the goods, and subsections 17(2), (3), (4), (5) and (8) of the Financial Administration Act apply in the case of a remission granted under this provision.</i></p>							
<p>Aircraft, not including engines, under such regulations as the Minister may prescribe:</p>							
44043-1	When of types or sizes not made in Canada	Free	Free	27 1/2 p.c.	Free	Free	27 1/2 p.c.
	on and after July 1, 1977	Free	7 1/2 p.c.	27 1/2 p.c.	Free	7 1/2 p.c.	27 1/2 p.c. (on and after July 1, 1976)
<p>Aircraft engines, when imported for use in the equipment of aircraft:</p>							
44047-1	When of types or sizes not made in Canada	Free	Free	27 1/2 p.c.	Free	Free	27 1/2 p.c.
	on and after July 1, 1977	Free	7 1/2 p.c.	27 1/2 p.c.	Free	7 1/2 p.c.	27 1/2 p.c. (on and after July 1, 1976)
49207-1	Computer magnetic tapes with seismic data recorded thereon, imported for processing or interpretation	Free	Free	25 p.c.	15 p.c.	15 p.c.	25 p.c.
70200-1	Vehicles, aircraft or water borne craft, engaged in the international commercial transportation of passengers or goods, in accordance with such terms and conditions as the Governor in Council may prescribe by regulations	Free	Free	Free	Free	Free	Free
<p><i>Goods entitled to entry under this tariff item shall be exempt from all imposts, notwithstanding the provisions of this Act or any other Act.</i></p>							
86800-1	Mercaptans or preparations containing mercaptans for use in odorizing natural gas or liquid petroleum gas	Free	Free	25 p.c.	Free 10 p.c.	15 p.c. 15 p.c.	25 p.c. 25 p.c.

3. That Schedule C to the *Customs Tariff* be amended by striking out item 99206-1 and the enumeration of goods set opposite that item, and by inserting in Schedule C to the said Act the following item and enumeration of goods:

99206-1 Goods manufactured or produced wholly or in part by prison labour, *unless in any particular case or class of cases exempted from the provisions of this item by a regulation of the Governor in Council.*

4. That the *Customs Tariff* be further amended to provide that, for the purposes of subsection 3.1(1) of the said Act in the case of the goods described in paragraph 1 of this motion, the tariff rate applicable on the entry of the goods shall be deemed to be the tariff rate that would otherwise have been applicable on the entry of the goods had there been no enactment founded upon paragraph 1 of this motion.

5. That any enactment founded upon this motion shall be deemed to have come into force on the 26th day of May, 1976, and to have applied to all goods mentioned in the said motion 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.

6. That any enactment founded upon paragraph 1 of this motion shall expire on the 30th day of June, 1977, and all rates of customs duty reduced by such enactment shall be deemed to be restored on the expiration thereof to the rates that were in effect immediately prior to the 20th day of February, 1973, and such restored rates shall thereupon, subject to the *Customs Tariff*, apply after the 30th day of June, 1977, as they applied immediately before the 20th day of February, 1973.

7. Where, as a result of an amendment made to Schedule A to the *Customs Tariff* by an enactment founded upon paragraph 1 of this motion, a rate of duty on any goods is reduced from the rate applicable thereto immediately prior to the 20th day of February, 1973, the Governor in Council, at any time during the period commencing with the coming into force of the enactment and ending on the 30th day of June, 1977, may by order restore the rate applicable in the case of the goods to the rate that was in effect immediately prior to the 20th day of February, 1973, and such restored rate shall thereupon, subject to the *Customs Tariff*, apply thereafter as it applied immediately before the 20th day of February, 1973.

**Notice of Ways
and Means Motion**

Income Tax Act

MAY 25, 1976

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:

1. That for the 1976 and subsequent taxation years

- (a) the maximum deductible amount an employee may contribute to registered pension plans in a year be raised to \$3,500,
- (b) the maximum deductible amount an employer may contribute to a registered pension plan in a year on behalf of an employee be raised to \$3,500,
- (c) the maximum deductible amount an employee who is or may be eligible for benefits from a pension plan in respect of his employment in the year may contribute to registered retirement savings plans in that year be raised to \$3,500,
- (d) the maximum deductible amount a self-employed taxpayer or an employee not described in subparagraph (c) may contribute to registered retirement savings plans in a year be raised to \$5,500, and
- (e) the maximum deductible amount an employer may contribute to a deferred profit sharing plan in a year on behalf of an employee be raised to \$3,500.

2. That for the 1976 and subsequent taxation years rules be introduced to permit the transfer of funds from one trust governed by a registered home ownership savings plan to another such trust.

3. That for the 1976 and subsequent taxation years the small business deduction in section 125 of the Act be extended by increasing a corporation's business limit for a taxation year to \$150,000 and by increasing its total business limit for a taxation year to \$750,000.

4. That a taxpayer, whether or not his principal business is natural resource oriented, may deduct in computing his income, 100% of his Canadian exploration expenses incurred after May 25, 1976 and before July 1, 1979.

5. That for the 1976 and subsequent taxation years

- (a) the maximum amount of child care expenses deductible by a taxpayer in a year be raised to the least of \$4,000, \$1,000 per child and 2/3 of the taxpayer's earned income,
- (b) the maximum amount of child care expenses deductible by a taxpayer described in paragraph 63(2)(a) of the Act for a week be raised to the lesser of \$120 and \$30 per child, and
- (c) the definition of child care expense be extended to include a child care expense incurred by a taxpayer to enable him to undertake an occupational training course in respect of which he received an adult training allowance paid to

him under the *Adult Occupational Training Act* or to carry on research or any similar work, in respect of which he received a grant.

6. That for the 1976 and subsequent taxation years a taxpayer may claim the disability deduction in respect of a disabled individual resident in Canada who is the taxpayer's child or grandchild or an individual in respect of whom he deducted or could have deducted, if the individual's income had been nil, an amount under paragraph 109(1)(b) of the Act, to the extent that the amount of the disability deduction exceeds the disabled individual's taxable income in the year before he claims the disability deduction.

Charities

7. That for the 1977 and subsequent taxation years new rules shall apply to charities, substantially as follows:

(a) a charity will be required to be registered to be exempt from taxation;

(b) a charity shall not be registered unless it is resident in Canada and was established pursuant to any law of Canada or a province;

(c) the categories of charities shall be as follows:

(i) charitable organizations which are similar to charitable organizations described at present in the Act,

(ii) charitable foundations which are trusts similar to charitable trusts described at present in the Act or corporations similar to non-profit corporations constituted exclusively for charitable purposes described at present in the Act,

(iii) public foundations which are charitable foundations in each of which more than 50% of the trustees or directors deal with each other at arm's length and not more than 75% of the capital has been contributed by one or more persons who do not deal with each other at arm's length, and

(iv) private foundations which are charitable foundations that are not public foundations;

(d) the Minister of National Revenue may deem a private foundation to be a public foundation and may revoke that designation;

(e) a charitable organization may disburse not more than 50% of its income in a year to qualified donees but it may disburse any amount of its income in a year to a registered charity that the Minister of National Revenue has designated as associated with it;

(f) the Minister of National Revenue may revoke the registration of a charitable organization if, *inter alia*, the organization

(i) fails to expend in any taxation year on charitable activities carried on by it and by way of gifts made by it to qualified donees, an amount that is at least

equal to 80% of the aggregate of amounts for which it issued receipts described in paragraph 110(1)(a) of the Act in its preceding taxation year, or

(ii) carries on a business that is not related to its charitable activities;

(g) the Minister of National Revenue may revoke the registration of a public foundation if, *inter alia*, the foundation

(i) fails to expend in any taxation year on charitable activities carried on by it and by way of gifts made by it to qualified donees, an amount that is at least equal to the greater of

(A) 80% of the aggregate of amounts for which it issued receipts described in paragraph 110(1)(a) of the Act in its preceding taxation year, and

(B) 90% of its income in its preceding taxation year, or

(ii) carries on a business that is not related to its charitable activities;

(h) the Minister of National Revenue may revoke the registration of a private foundation if, *inter alia*, the foundation

(i) fails to expend in any taxation year on charitable activities carried on by it and by way of gifts made by it to qualified donees, an amount that is at least equal to the aggregate of

(A) the greater of

(I) 5% of the fair market value of the capital assets of the foundation calculated as of the end of its preceding taxation year but excluding the fair market value at that time of

1. qualified investments of the foundation,

2. capital assets used directly by the foundation in charitable activities or administration, and

3. amounts accumulated by the foundation with the consent of the Minister of National Revenue, and

(II) 90% of the income derived in its preceding taxation year from the capital assets in respect of which the 5% is calculated described in sub-subclause (I), and

(B) 90% of the amount by which the income of the foundation in its preceding taxation year exceeds the income derived by the foundation in that year from the capital assets described in sub-subclause (II), or

(ii) carries on a business;

(i) for the purposes of subparagraph (h), qualified investments are investments similar to those defined as qualified investments for deferred income and other plans under the Act;

(j) a registered charity may with the permission of the Minister of National Revenue and under such terms and conditions as he may specify accumulate funds for specific projects;

(k) a registered charity shall file an information return annually and the information therein shall be made available to the public by the Minister of National Revenue;

(l) where the registration of a charity is revoked, all the property of the charity shall be forfeited to the Crown except to the extent that it has been transferred, within one year of the revocation, to qualified donees or to persons in respect of *bona fide* debts of the charity at the time of the revocation;

(m) where the registration of a charity is revoked and a person who is not a qualified donee receives any property from the charity that is not in satisfaction of a *bona fide* debt of the charity at the time of the revocation, that person shall be jointly and severally liable with the charity for an amount equal to the value of the property he receives;

(n) for the purposes of this paragraph,

(i) "qualified donee" means a registered charity or a donee described in any of subparagraphs 110(1) (a) (ii) to (vii) or paragraph 110(1) (b) of the Act,

(ii) "related business" includes a business that is unrelated to the objects of a charity if substantially all the people employed by the charity in the carrying on of that business are not remunerated.

8. That for the 1977 and subsequent taxation years no club, society or association shall be exempt from taxation under paragraph 149(1) (l) of the Act unless in the opinion of the Minister of National Revenue the club, society or association, as the case may be, is not eligible for registration as a registered charity.

Individuals

9. That for the 1972 and subsequent taxation years the definition of a principal residence of a taxpayer shall be extended to include a residence owned by the taxpayer that is in certain circumstances ordinarily inhabited by the spouse or former spouse of the taxpayer, but not by the taxpayer himself.

10. That for the 1972 and subsequent taxation years the exception to the principal residence rules for a transferred employee shall be extended to include the interest of his spouse in the principal residence.

11. That a taxpayer shall include in computing his income amounts received by him after May 25, 1976 as reimbursements of costs incurred in relation to a decision of the

Unemployment Insurance Commission, a board of referees or an umpire under the *Unemployment Insurance Act, 1971*, if with respect to the decision, an amount has been deducted or may be deductible under paragraph 60(o) of the Act in computing his income.

12. That for the 1976 and subsequent taxation years a taxpayer who receives an allowance from a province similar to the family allowance provided under the *Family Allowances Act, 1973* shall include the allowance in computing his income if the province allows a deduction for the child in respect of whom the allowance is paid in computing provincial income tax even if the taxpayer cannot claim the deduction because of the amount of the child's income in the year.

13. That for the 1976 and subsequent taxation years an individual may purchase an income-averaging annuity contract in respect of amounts paid to him by virtue of paragraph 29.2(2)(b) of the *Judges Act*.

14. That moving expenses shall not include, for the purposes of subsection 62(1) of the Act, costs incurred by a taxpayer after May 25, 1976 in respect of acquiring a new residence.

15. That for the 1976 and subsequent taxation years a taxpayer deemed to be resident in Canada solely by virtue of subsection 250(1) of the Act may deduct child care expenses, moving expenses or tuition fees incurred outside of Canada on the same basis as a taxpayer actually resident in Canada may deduct those expenses or fees if they were incurred in Canada.

16. That for the 1975 and subsequent taxation years a taxpayer shall not deduct any amount under paragraph 109(1)(b) of the Act in computing his taxable income if he lived with his spouse during the year.

17. That for the 1976 and subsequent taxation years a taxpayer may not claim the student living allowance deduction

(a) in respect of an individual enrolled in a qualifying educational program below the post-secondary school level at a designated educational institution described in clause 110(9)(a)(i)(A) of the Act,

(b) in respect of an individual who is his brother or sister, if his brother or sister, as the case may be, has never been a resident of Canada, or

(c) if his enrolment or the enrolment of the individual in respect of whom he is claiming the deduction, as the case may be, in a designated educational institution and qualifying educational program is not proven by filing with the Minister of National Revenue a certificate issued by the designated educational institution in prescribed form and containing prescribed information.

18. That for the purposes of the interest and dividend income deduction described in section 110.1 of the Act, interest shall not include interest paid or payable in respect of any period after May 25, 1976 to the extent the taxpayer has deducted an amount under subsection 20(14) of the Act in respect of it.

19. That for the 1976 and subsequent taxation years the rules for determining the amount a taxpayer may transfer to his spouse in respect of the student living allowance deduction and the disability deduction be revised so that they are similar to the rules in respect of the transfer of the old age deduction, the interest and dividend income deduction, and the pension income deduction.

20. That after May 25, 1976 a receipt valid for the purposes of the political contributions tax credit may not be issued by a candidate for election to the House of Commons unless he is officially nominated within the meaning of section 2 of the *Canada Elections Act*.

21. That a debtor or other person who pays or credits to a resident of Canada an amount in respect of bearer coupons, warrants, or cheques in circumstances where an ownership certificate referred to in subsection 234(1) of the Act is required to be completed shall, after December 31, 1976, withhold 25% of the amount and remit that amount to the Receiver General of Canada if the ownership certificate does not contain the Social Insurance Number of the resident.

Deferred Income and Other Plans

22. That dividends described in subsection 83(1) of the Act received after May 25, 1976 by a trust governed by an employees profit sharing plan shall not increase the amount that the trust may pay free of tax to a beneficiary under the trust.

23. That for the 1976 and subsequent taxation years a taxpayer who makes a deductible contribution to a registered retirement savings plan within the first 60 days of the calendar year be allowed to choose whether he will claim his deduction in respect of that year or the preceding year.

24. That for the 1974 and subsequent taxation years

(a) the attribution rules in section 74 of the Act not apply in respect of transfers of property by a taxpayer as a premium to his spouse's registered retirement savings plan, and

(b) any amount included in a taxpayer's income in respect of which he deducted an amount under paragraph 60(j) of the Act shall not reduce the amount of deductible contributions he may make to his spouse's registered retirement savings plan.

25. That where after May 25, 1976 a registered retirement savings plan becomes an amended plan which does not comply with the requirements of section 146 for its acceptance by the Minister for registration, the annuitant under such a plan shall be deemed, at the time of the amendment, to have received as a benefit out of the plan, an amount equal to the fair market value of all the property of the plan at the time of the amendment.

26. That where after May 25, 1976 a registered retirement savings plan is amended or revised and any funds thereunder are transferred as a contribution to a registered pension plan, no deduction may be taken in respect of the transferred funds under section 8 of the Act.

27. That for the 1976 and subsequent taxation years

(a) a registered retirement savings plan shall include a provision for the refund of all or part of the contributions made to the plan to the extent that no deduction may be claimed in that or the previous taxation year in respect of those contributions, and

(b) a taxpayer shall not be taxable in respect of a refund of his contributions to registered retirement savings plans in a year to the extent that the refund is in respect of the amount by which

(i) the lesser of \$5,500 and his contributions in the year,

exceeds

(ii) the amount he may deduct in respect of those contributions as determined in computing his income for the purposes of an assessment,

if the refund is received before the end of the year following that in which the notice of assessment is issued.

28. That where at the end of any month ending after May 31, 1976 there is an excess amount for the year in respect of registered retirement savings plans to which a taxpayer has made contributions, the taxpayer shall, in respect of that month, pay a tax equal to 1% of the excess amount; "excess amount" means the contributions made by a taxpayer in the year and any gifts received by his plans in the year less the greater of the amounts he may deduct in respect of those contributions and \$5,500.

29. That the Minister of National Revenue may after May 25, 1976 revoke the registration of a deferred profit sharing plan as of the date when the event causing the revocation took place.

30. That where at the end of any month ending after May 31, 1976 a trust governed by a deferred profit sharing plan has an excess amount, the trust shall, in respect of that month, pay a tax equal to 1% of the excess amount; "excess amount" includes the contributions of an employee in the year that exceed \$5,500, and gifts to the trust.

31. That for the 1975 and subsequent taxation years the rules in the Act which deem a taxpayer to dispose of certain property when he ceases to be resident in Canada shall not apply to a right he may have to receive a payment from a trust governed by a registered home ownership savings plan.

32. That the capital losses arising from transfers of property after May 25, 1976

(a) between the beneficiary under a deferred profit sharing plan, an employees profit sharing plan or a registered home ownership savings plan and the plan,

(b) between the annuitant under a registered retirement savings plan and the plan, or

(c) by a taxpayer to his spouse's registered retirement savings plan

shall be nil and that the superficial loss rules not apply to such transfers.

33. That for the 1976 and subsequent taxation years the tax imposed by Part XI of the Act relating to foreign property held by a trust governed by a registered retirement savings plan, deferred profit sharing plan or registered home ownership savings plan shall not apply to foreign property which is also a non-qualified investment.

Partnerships

34. That where a taxpayer is deemed to have an interest in a partnership by virtue of subsection 98(1) of the Act and the adjusted cost base of the interest is at any time after May 25, 1976 less than nil, the taxpayer shall be deemed to have a capital gain equal to the difference between the adjusted cost base of the interest and nil.

35. That for the 1972 and subsequent taxation years special rules similar to those in section 98.2 of the Act be applicable to a taxpayer who has acquired a property that was an interest in a partnership (other than a residual interest) by virtue of the death of an individual if the taxpayer is not a member of the partnership and does not become a member of the partnership by reason of the acquisition.

36. That a share of a member of a partnership in the amount contributed by the partnership after June 23, 1975 to a registered party or to a candidate at an election of a member or members to serve in the House of Commons shall, for the purposes of subsection 127(3) of the Act, be deemed to be an amount contributed by the partner.

Trusts

37. That the legal representative of a deceased taxpayer who died after December 31, 1975 may make an election in respect of any property of the taxpayer which is subject to the rules in subsection 70(6) of the Act so that the rules in subsection 70(5) shall apply to the property.

38. That the rules in subsection 70(7) of the Act with respect to certain testamentary trusts described therein be revised so that where a loss arises from the transfer or distribution after May 25, 1976 of designated specified property so listed to a trust, the amount of the deceased taxpayer's capital loss will be properly calculated and the cost to the trust of the property will be appropriately reduced.

39. That paragraph 104(4) (a) of the Act be revised so that

(a) where the spouse who is a beneficiary under a trust has died after December 31, 1975 if the trust was created before January 1, 1972 and fulfills certain other conditions the trust shall not be deemed to have disposed of each of its capital properties on the spouse's death, and

(b) for greater certainty, where the spouse who is a beneficiary under a trust has died after May 25, 1976 and the trust at any time after June 18, 1971 was a trust as described in that paragraph the trust shall be deemed to have disposed of each of its capital properties on the spouse's death.

40. That the provisions in subsection 107(4) of the Act relating to capital property (other than depreciable property) distributed to a beneficiary of a spouse trust, other than the spouse, during the spouse's lifetime be extended to include depreciable property distributed to such a beneficiary after May 25, 1976 and revised so that after May 25, 1976 the beneficiary shall be deemed to have disposed of all or part of his interest in the trust, as the case may be, for proceeds of disposition equal to the proceeds of disposition for which he would be deemed to have disposed of the interest if subsection 107(2) of the Act applied.

41. That for the 1976 and subsequent taxation years the rules in subsection 104(8) of the Act under which the maximum amount deductible by a trust under subsection 104(6) of the Act is calculated be revised, substantially as follows:

- (a) the maximum amount calculated under subsection 104(8) shall not exceed the amount that would be deductible by the trust under subsection 104(6) if subsection 104(8) did not apply,
- (b) retained income for a year in the trust (excluding amounts upon which preferred beneficiaries have made an election) shall be deemed to be designated income generally to the extent that the trust has designated income, and
- (c) where the amount of designated income in the trust exceeds the amount of retained income in the trust the excess shall be deemed to be payable to designated beneficiaries under the trust substantially in the proportion that all amounts payable to the designated beneficiaries is to the aggregate of all the amounts of non-retained income of the trust for the year and amounts upon which the preferred beneficiaries under the trust have made an election.

42. That for the 1975 and subsequent taxation years a trust established pursuant to the requirement of a law of Canada or a province in order to provide compensation to persons for claims against the owner of a business who is unwilling or unable to compensate a customer or client shall be exempt from taxation under Part I of the Act.

43. That for the 1976 and subsequent taxation years withholding tax not be exigible on taxable capital gains designated by a mutual fund trust in respect of a non-resident beneficiary under the trust subject to rules for designation similar to those in subsection 104(21) of the Act.

International

44. That for the purposes of determining the limitation on the deduction of interest by a corporation on debts to specified non-residents, a loan made by a lender after May 25, 1976 on condition that another loan be made by any person to a resident corporation shall be deemed to be a debt incurred by that resident corporation to the first lender only where the first lender is a specified non-resident.

45. That

- (a) contributions of capital made after December 31, 1971 by a taxpayer to a non-resident corporation shall increase the adjusted cost base of the shares in that corporation held by the taxpayer, and

(b) amounts received after December 31, 1971 by a taxpayer from a non-resident corporation as a reduction of the paid-up capital of the shares of that corporation held by the taxpayer shall reduce the adjusted cost base of those shares in any computation of the adjusted cost base of those shares after May 25, 1976.

46. That for the 1976 and subsequent taxation years the foreign tax credit calculation be adjusted in respect of the interest and dividend income deduction described in section 110.1 of the Act to prevent the erosion of the amount of the credit by the deduction.

47. That the exemption from non-resident withholding tax described in clause 212(1)(b)(iii)(E) of the Act in respect of amounts paid or credited on account of interest deductible from the income of a foreign business be expanded to include amounts paid or credited after May 6, 1974 on account of interest not deductible solely because it is incurred in connection with land, or because it is added to the capital cost of depreciable property or to exploration and development expenses.

48. That for the 1975 and subsequent taxation years the full amount of any payment of a benefit under the *Canada Pension Plan* or under a provincial pension plan as defined in section 3 of that Act be exempt from non-resident withholding tax.

49. That the non-resident withholding tax apply to any amount paid or credited after May 25, 1976 to a non-resident on account of a benefit provided for under a scheme of adjustment assistance benefits to persons employed in the leather tanning industry or in the production of leather footwear.

50. That for the 1974 and subsequent taxation years the calculation of the base for the branch tax shall be adjusted in respect of Crown resource royalties or similar amounts and allowances related thereto.

51. That where a foreign affiliate of a taxpayer is dissolved after December 31, 1971, the taxpayer's proceeds of disposition of its shares of the affiliate shall be reduced by the fair market value of any debt owing by the affiliate that was assumed or cancelled by the taxpayer on the dissolution.

52. That for the 1972 and subsequent taxation years for the purposes of the foreign affiliate provisions, other than the definition of "participating percentage", a person's indirect interest in a particular corporation through a corporation resident in Canada shall be considered in the determination at any time of that person's "equity percentage" in the particular corporation.

53. That for the purposes of the deduction under subsection 113(2) of the Act in respect of a dividend received by a corporation on a share of a foreign affiliate of that corporation, the adjusted cost base to the corporation of the share of the foreign affiliate at the end of the corporation's 1975 taxation year shall be reduced by repayments of capital received by the corporation after the end of its 1975 taxation year.

Corporate and Business

54. That for taxation years commencing after May 25, 1976 a taxpayer shall include in computing his income for a taxation year the amount of any negative balance in the undepreciated capital cost of a class of his depreciable property.

55. That for greater certainty a taxpayer in computing his income from a business or property shall not deduct any amount in respect of political contributions paid or payable after May 25, 1976.

56. That in respect of dividends that become payable after December 31, 1974, the deadlines for filing elections pursuant to section 83 of the Act shall be extended and the rules for making such elections modified.

57. That for the 1972 and subsequent taxation years the amount of any late filing penalty described in subsection 85(8) or 96(6) of the Act shall not exceed \$2,500.

58. That for taxation years ending after May 25, 1976

(a) the Minister of National Revenue shall determine the amount of any refund to which the taxpayer may be entitled under section 129, or any of sections 131 to 133 of the Act and the taxpayer may appeal any such determination, whether or not any tax has been assessed by the Minister, and

(b) the Minister of National Revenue may determine the amount of a taxpayer's loss for a taxation year and where the Minister determines that amount to be different from the corresponding amount reported by the taxpayer, the taxpayer may appeal the determination whether or not any tax has been assessed by the Minister.

59. That for the 1976 and subsequent taxation years any corporation entitled to claim a small business deduction for either its current year or preceding year shall be allowed to make its final tax instalment for the current year by the end of the third month following that year.

60. That in respect of the royalties and other amounts described in paragraph 12(1)(o) or 18(1)(m) of the Act receivable, or paid or payable after May 25, 1976, certain clarifying adjustments shall be made in respect of the types of amounts that shall be included in income, including *inter alia*, the deletion of the word *levy* and the deletion of the requirement that municipal or school tax be related to services provided in the immediate area of the taxpayer's property.

61. That for taxation years ending after May 25, 1976 clarifying changes be made to section 21 of the Act including more accurate references in that section to the different categories of exploration and development costs.

62. That where a taxpayer has died after May 25, 1976, in computing his income for the year of death no reserve may be claimed pursuant to subsection 64(1.1) of the Act, except under the circumstances described in subsection 72(2) of the Act.

63. That the cost to a taxpayer of any Canadian resource property acquired after May 6, 1974, including those purchased from a government in Canada, shall be included in the taxpayer's Canadian development expense.

64. That a taxpayer's Canadian exploration or Canadian development expenses not be reduced by any government assistance which is related to those expenses and which is received after May 25, 1976.

65. That in respect of reimbursements after May 25, 1976 of certain government levies on resources, section 80.2 of the Act shall be modified so as to apply to reimbursements made by sub-lessees as well as lessees of resource leases if those lessees or sub-lessees are subject to tax in Canada in the year of reimbursement.

66. That for taxation years ending after May 25, 1976, gross revenue as defined in subsection 248(1) of the Act shall include the amount of a taxpayer's accrued interest at the end of a taxation year and the amount of any resource levies deemed to be included in his income pursuant to paragraph 12(1) (o) of the Act.

67. That for the 1972 and subsequent taxation years the taxable capital gains or allowable capital losses of a life insurer that are determined pursuant to paragraph 142(1) (b) of the Act to relate to an insurance business carried on in Canada, shall include the amortization of discounts or premiums on specified Canadian assets that are interest bearing securities and that are held by the insurer at the end of the year, to the extent that the amortization relates to a Canadian insurance business other than a Canadian life insurance business.

68. That for the 1976 and subsequent taxation years significant modifications shall be made to the branch method of determining the Canadian portion of a multi-national insurance company's gross investment revenues, including *inter alia*:

(a) a requirement that the insurer designate sufficient assets under the branch method to ensure that the Canadian investment revenues so determined will not be less than the Canadian investment revenues determined under rules which shall be similar to the proportional method of determining such revenues, and

(b) permission for the Minister of National Revenue to designate the requisite amount of the insurer's assets where the insurer has failed to do so.

69. That for the 1976 and subsequent taxation years a farmer who receives compensation in respect of the destruction of animals pursuant to the *Animal Contagious Diseases Act* may include that compensation in computing his income either for the taxation year in which the compensation was received or for the following taxation year.

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:

1. That for the 1976 and subsequent taxation years the rate of branch tax imposed on a corporation resident in a country with which Canada has a comprehensive income tax treaty be the same as the maximum rate of Canadian non-resident withholding tax applicable to dividends under that treaty.
2. That where at any time prior to May 7, 1974, a corporation was deemed to be a foreign affiliate of a taxpayer by virtue of an election made by the taxpayer under previous provisions of the *Income Tax Act*, it shall be deemed to have been a foreign affiliate of the taxpayer at that time.
3. That the provisions under which a non-resident discretionary trust referred to in paragraph 94(1)(c) of the *Income Tax Act* is deemed to be a person resident in Canada shall not be effective until the 1976 and subsequent taxation years.
4. That for the 1972 and subsequent taxation years a taxpayer carrying on a business that is a profession who ceases to be a resident of Canada but continues to carry on the business in Canada be allowed to maintain his 1971 receivables reserve under the provisions of subsection 23(3) of the Rules.
5. That in respect of dividends that became payable prior to January 1, 1975 the deadlines for filing elections pursuant to section 83 of the *Income Tax Act* shall be extended and the rules for making such elections modified.
6. That where
 - (a) a trust governed by a deferred profit sharing plan, registered retirement savings plan, or registered home ownership savings plan, or
 - (b) a trust or corporation established or incorporated solely in connection with a registered pension plan or fund

holds shares of a mutual fund corporation which are foreign property for the purposes of Part XI of the *Income Tax Act* and the mutual fund corporation amalgamates with another mutual fund corporation, such trust or corporation, as the case may be, shall be deemed not to have acquired foreign property after June 18, 1971 to the extent that the shares it holds in the amalgamated mutual fund corporation were acquired after May 25, 1976 in exchange for shares in the predecessor mutual fund corporation held by it from before June 19, 1971.

**Notice of Ways
and Means Motion**

Excise Tax Act

Notice of Ways and Means Motion An Act to Amend the Excise Tax Act

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

1. The following goods be made exempt from the consumption or sales tax:
 - (a) heat pumps for use principally to provide heat in a heating system of a building;
 - (b) heat recovery units and devices for extracting heat from exhaust air or waste water for recovery of energy;
 - (c) solar cells designed to produce electricity directly from the sun for charging batteries;
 - (d) solar furnaces, solar panels and tubes specially designed for collecting and converting solar energy into heat for use in solar heating systems;
 - (e) thermal insulation designed for pipes and ducts used in buildings and mechanical systems; wrapping materials designed exclusively for use with such insulation;
 - (f) timer-controlled thermostats designed to provide automatic control of heating systems for buildings;
 - (g) wind generators, windmills and similar fixed location devices for converting wind power to mechanical or electrical energy; pumps and generators specially designed for use directly with such devices;
 - (h) such additional equipment, articles and materials as are prescribed by regulation of the Governor in Council to be energy conservation equipment; and
 - (i) articles and materials for use exclusively in the manufacture or production of the above-mentioned tax exempt goods.
2. The following goods be made exempt from the consumption or sales tax:
 - (a) ships and other marine vessels, purchased or imported for use exclusively in such marine activities, other than sport or recreation, as the Governor in Council may by regulation prescribe; articles and materials for use exclusively in the manufacture, equipping or repair of those tax exempt goods;
 - (b) fuel consumed directly in the testing of engines by the manufacturers or producers of such engines and fuel consumed directly in the testing of aircraft engines;
 - (c) parts and equipment installed on the tax exempt construction equipment referred to in Part XVI of Schedule III to the *Excise Tax Act* prior to the first use of those tax exempt goods;

(d) self-propelled trucks mounted on rubber-tired wheels for off-highway use exclusively at mines and quarries; and

(e) the goods enumerated in and under the conditions prescribed in Customs Tariff item 69605-1.

3. Licensed wholesalers buying for resale goods which are subject to excise tax, imposed by Part III of the *Excise Tax Act*, be permitted to defer the time of payment of the excise tax on all such goods, other than tobacco products, in the same manner as is presently done by licensed wholesalers buying goods for resale, in the case of goods subject to the consumption or sales tax imposed by Part V of the *Excise Tax Act*, that is, until the time the goods are delivered to the purchaser or retained for use or rental.

4. An excise tax be imposed on automobiles, not including ambulances, hearses or automobiles designed to carry 12 or more passengers; namely

(a) automobiles, other than station wagons and vans designed primarily for use as passenger vehicles, in excess of 3,500 pounds (hereinafter referred to as the "automobile weight limit"),

(b) station wagons and vans designed primarily for use as passenger vehicles in excess of 3,700 pounds (hereinafter referred to as the "wagon weight limit"),

at the following rates

(c) for the portion of the weight thereof that exceeds the automobile weight limit or the wagon weight limit, as the case may be, but does not exceed such weight limit by more than 100 pounds.....\$30.00,

(d) for the portion of the weight thereof that exceeds the aggregate of 100 pounds plus the automobile weight limit or the wagon weight limit, as the case may be, but does not exceed such aggregate plus 100 pounds.....\$40.00,

(e) for the portion of the weight thereof that exceeds the aggregate of 200 pounds plus the automobile weight limit or the wagon weight limit, as the case may be, but does not exceed such aggregate plus 100 pounds.....\$50.00,

(f) for each 100 pounds or portion thereof that the weight thereof exceeds the aggregate of 300 pounds plus the automobile weight limit or the wagon weight limit, as the case may be.....\$60.00,

and for the purposes of this provision the weight of an automobile, station wagon or van is the weight of a fully manufactured automobile, station wagon or van 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 is included in its sale price at the time of sale by him except that where at the time of such sale the automobile, station wagon or van includes an air conditioner as permanently installed equipment, the said weight, as otherwise determined pursuant hereto, shall be reduced by 65 pounds.

5. An excise tax of \$100.00 be imposed on air conditioners designed for use in automobiles, station wagons, vans or trucks whether separate or included as permanently installed equipment in an automobile, station wagon, van or truck at the time of sale or importation of such vehicles by the manufacturer or importer thereof, as the case may be; except that this provision not apply in the case of any air conditioner mentioned therein

(a) that is purchased or imported for permanent installation in an ambulance or hearse or is included as permanently installed equipment in such vehicles,

(b) that is sold under conditions for which relief from the consumption or sales tax is provided by virtue of any provision of the *Excise Tax Act* other than subsection 27(2), or

(c) that is included as permanently installed equipment in an automobile, station wagon, van or truck which vehicle is sold under conditions for which relief from the consumption or sales tax is provided by virtue of any provision of the *Excise Tax Act* other than subsection 27(2).

6. Section 27(4) of the *Excise Tax Act* be amended to include a reference to ships or other marine vessels and parts or equipment for aircraft, ships or other marine vessels.

7. Any enactment founded on paragraphs 1, 2, 3, 5 and 6 shall be effective May 26, 1976 and any enactment founded on paragraph 4 shall be effective on August 1, 1976 except that any enactment founded on the said paragraph 4 shall be read and construed

(a) in the case of the period commencing on August 1, 1976 and ending on July 31, 1977, as if any reference to 3,500 pounds therein were a reference to 4,250 pounds and any reference to 3,700 pounds therein were a reference to 4,750 pounds,

(b) in the case of the period commencing on August 1, 1977 and ending on July 31, 1978, as if any reference to 3,500 pounds therein were a reference to 4,000 pounds and any reference to 3,700 pounds were a reference to 4,400 pounds, and

(c) in the case of the period commencing on August 1, 1978 and ending on July 31, 1979, as if any reference to 3,500 pounds therein were a reference to 3,750 pounds and any reference to 3,700 pounds therein were a reference to 4,050 pounds.

Budget Paper B

Government of

Canada

Statement of Financial

Transactions 1975-76

B

Introduction

This publication sets out in summary form the financial transactions of the Government of Canada for the fiscal year 1975-76 with comparative figures for the previous four years. The financial transactions are presented first on a Public Accounts basis and then on the National Income and Expenditure basis, extended to encompass other financial transactions affecting the Consolidated Revenue Fund of the Government of Canada.

Although the fiscal year of the government ends on March 31, the books remain open for some time to permit payments made up to April 30 in discharge of debts incurred before March 31 to be included in the accounts for the fiscal year. Adjusting entries can also take place well after the fiscal year-end. For this reason, the books are not yet closed for fiscal year 1975-76 and the figures must therefore be regarded as preliminary. The normal publication of the financial statements on a Public Accounts basis will follow later this summer in the Canada Gazette.

On March 9, 1976, the Chairman of the Standing Committee on Public Accounts tabled in the House of Commons the report of the Committee endorsing the recommendations contained in the *Report on the Study of the Accounts of Canada*. The study emphasized the need to develop a standard form for the reporting of government financial transactions in official publications, and to extend the traditional National Income and Expenditure Accounts to incorporate other financial transactions which affect the government's cash position. This publication reflects the recommendations in the study both with regard to the form of the statements and the extension of the traditional National Income and Expenditure Accounts.

The Study of the Accounts of Canada also made certain recommendations with respect to the definition of assets and liabilities of the government. As a consequence of these recommendations, certain items would be dropped from the statements of assets and liabilities and changes in these items would then be classified as budgetary, rather than non-budgetary, transactions. Due to administrative and legal constraints, these changes will not be implemented in the Public Accounts in fiscal year 1976-77, nor are they implemented in the statements in this publication.

Public Accounts Presentation

The initial "Summary Statement of Transactions" summarizes the transactions in an aggregate form. These transactions are categorized under four main headings: budgetary transactions, non-budgetary transactions, foreign exchange transactions and unmatured debt transactions. The resulting cash position at the end of the period is also shown.

This form of presentation differs somewhat from the Public Accounts as published to date. In the Public Accounts, non-budgetary transactions are defined to include foreign exchange transactions whereas such transactions are shown separately in this presentation. Also, in the traditional Public Accounts the unmatured debt transactions are defined to include the change in unmatured debt payable in foreign currency as

well as the change in special non-marketable bonds held, at various points in time, by the Unemployment Insurance Commission. Here, the change in unmatured debt payable in foreign currency is defined as a foreign exchange transaction and the change in special non-marketable bonds held by the Unemployment Insurance Commission is defined as a non-budgetary transaction. This format is consistent with the recommendations contained in the Study of the Accounts of Canada previously noted.

As of July 1, 1975, Old Age Security transactions were reclassified from non-budgetary to budgetary. In order to provide a historical series basis, Old Age Security transactions have been treated as budgetary rather than non-budgetary in all years in this publication.

It should be noted that the current form of presentation, both in this publication and in the statements accompanying the Budget Speech itself, varies slightly from that followed in the tables presented in past budgets and in the Economic Review published by the Department of Finance. In the past, the advance to the Exchange Fund to remit profits formed part of non-budgetary transactions, while in the current format these advances are included with all other exchange transactions. This change in presentation was also made so as to conform with the recommendations of the Study of the Accounts of Canada. The effect of the change is to reduce non-budgetary requirements, and thus, financial requirements excluding foreign exchange. This is offset by a change in the level of exchange transactions, thus the total financial requirements are unaffected.

Extended National Accounts Presentation

This is the first year in which the Statement of Financial Transactions includes a table which presents financial transactions on the National Accounts basis. The "Extended National Accounts Presentation—Summary Statement of Transactions" presents transactions in an aggregate form. As in the case of the Public Accounts presentation, the transactions are categorized under four main headings: traditional National Income and Expenditure Accounts revenues and expenditures, loans and other transactions, foreign exchange transactions and unmatured debt transactions. The resulting cash position at the end of the period is also shown.

The first section, namely, the Current Transactions simply presents the revenues, expenditures and surplus or deficit as traditionally defined in the National Income and Expenditure Accounts.

The loans and other transactions will differ from the non-budgetary transactions in the Public Accounts presentation due to conceptual differences. Loans to certain agencies such as Atomic Energy of Canada Limited as well as advances to revolving funds are excluded in arriving at the total of loans and other transactions in the Extended National Accounts presentation, as the transactions of these agencies and revolving funds are included in Current Transactions. Similarly, the receipts and disbursements of government pensions and social security accounts, such as the Unemployment Insurance Commission, are included in Current Transactions whereas they appear in the non-budgetary sector in the Public Accounts. In determining the surplus or deficit

of Current Transactions on a National Accounts basis, certain revenue items, such as corporate income taxes, are reflected on an accrual as opposed to a cash basis. The Loans and Other Transactions section includes the adjusting entry required to convert from the accrual basis of revenue and expenditure to a cash basis.

Summary of Financial Transactions

Total financial requirements, including foreign exchange transactions, amounted to \$4,780 million in 1975-76. The budgetary deficit, alone, accounted for \$4,076 million of this total, with non-budgetary transactions resulting in requirements of \$514 million. The remaining \$190 million was required for foreign exchange transactions. The financial requirements were met through a \$4,627 million increase in unmatured debt together with a \$153 million decrease in cash balances. Cash balances at the end of the year amounted to \$3,052 million compared with \$3,205 million at the beginning of the fiscal year.

I. Budgetary Transactions

A. Revenues

In 1975-76, total budgetary revenues were \$1,744 million or 6.2 per cent above the level of fiscal year 1974-75. The rise in personal and corporate income tax revenues, augmented by the increase in non-tax revenues and the introduction of the special excise tax on gasoline, amounted to an increase of \$2,562 million. Declines in sales tax and oil export charge revenues offset this increase by \$1,031 million.

Personal income tax revenues rose by \$993 million in 1975-76. The increase of 8.5 per cent over 1974-75 was much lower than the 14 per cent growth in wages and salaries experienced during 1975. Slowing the growth in personal income tax collections was the tax reform provision to lower the first bracket rate from 12 per cent to 9 per cent effective January 1, 1975 coupled with the 10.1 per cent increase in the indexing factor. In addition, the full impact of November 18, 1974 budget cuts was felt in 1975-76. After allowing for the change of the tax cut maximum from \$750 to \$500 in the June 23, 1975 budget, personal income tax revenues were lowered by \$1,785 million as a result of the November 1974 measures.

The \$912 million increase in corporate tax revenues was in part due to the measures affecting resource taxation contained in the November 18, 1974 budget. In addition, 1975-76 is the year most affected by the speed-up of corporate settlement payments also introduced in the November 1974 budget. While the bulk of settlement payments in respect of 1974 liabilities were not received until early 1975-76, it appears that most settlement payments in respect of 1975 were received before the end of fiscal year 1975-76.

Total indirect taxes decreased by \$477 million from fiscal year 1974-75. Of this decrease, \$425 million resulted from a decrease in sales tax revenues. The reduction was related mainly to the first full year impact of the reductions of the November 18,

1974 budget. The estimated cost of these measures was \$980 million in 1975-76. In addition, oil export charge revenues dropped by \$606 million from 1974-75 due to the fall in the rate of the charge and significant reductions in the volume of oil exported. These decreases were in part offset by the special excise tax of 10 cents per gallon on gasoline introduced in the June 23, 1975 budget which augmented revenues by \$399 million, and by the increases in excise duties and other excise taxes of some \$165 million introduced in November 1974.

The increase of \$258 million in non-tax revenues resulted mainly from the normal growth in returns on government investments. The principal components of this increase were Bank of Canada profits, which rose by \$102 million and CMHC interest and remitted profits which rose by \$74 million.

B. Expenditures

Budgetary expenditures in 1975-76 increased by 15.9 per cent over the 1974-75 level. This compares with increases of 28 per cent and 22.5 per cent in 1974-75 and 1973-74 respectively. This deceleration in the rate of expenditure growth occurred despite continued high rates of increase in certain major programs.

Public debt charges continued to increase at a rapid rate during 1975-76. The annual rate of increase in 1975-76 was 23 per cent compared with 24 per cent the previous year. This reflects both the continuing high level of interest rates which has caused the average rate payable on outstanding debt to rise, and the increase in the level of debt outstanding.

Payments in connection with the oil price stabilization program increased by \$420 million over the 1974-75 level, a rate of increase of 36.1 per cent.

The cost to the federal government in 1975-76 of the hospital insurance and diagnostic services program rose by \$401 million, or 30.7 per cent from the preceding fiscal year.

In addition to these three major factors, the costs of certain other programs increased significantly in 1975-76. Federal government expenditures in 1975-76 under the Canada Assistance Plan increased by \$225 million or 34 per cent over the prior year level. Payments in connection with the Two Price Wheat Act increased by \$110 million from the 1974-75 level of \$79 million. Payments under the Railway Act rose by \$83 million or 34.3 per cent.

The above mentioned programs accounted for 42.7 per cent of the total increase in government expenditure.

The government contribution to the unemployment insurance program, family allowance payments and fiscal transfer payments were three major items contributing to the reduction in the rate of expenditure growth recorded in 1975-76. The government cost of the unemployment insurance plan was lower by \$45 million in 1975-76 than in 1974-75. In 1974, individual family allowance payments were increased substantially. During 1975 these payments were increased according to the rise in the consumer price index, but the indexation was suspended for calendar year 1976. As a consequence, the increase in payments during the fiscal year 1975-76 over 1974-75

amounted to only 7.3 per cent compared with the 83.7 per cent rise in 1974-75. Fiscal transfer payments also increased at a very low rate during 1975-76 after sharp increases in both 1974-75 and 1973-74. In 1975-76, these payments amounted to some \$2,496 million, only 1.3 per cent above the 1974-75 level. This partly reflects the acceleration of the revenue guarantee program that took place in 1974-75.

Excluding the changes in the above mentioned programs, federal government budgetary expenditures in 1975-76 increased at a rate of 14.6 per cent.

II. Non-budgetary Transactions

A. Loans, Investments and Advances

Loans, investments and advances increased by \$1,111 million or 50 per cent over the previous year. Loans to federal lending institutions increased by \$866 million. The bulk of these advances were made to three corporations. Loans to CMHC rose \$327 million and those to EDC rose \$288 million. In addition, \$197 million was advanced to the Federal Business Development Bank. Prior to October 1975, this Bank was under the control of the Bank of Canada and did not form part of the loans, investments and advances category.

Loans to Petro Canada, a newly formed crown corporation, amounted, to \$231 million. The bulk of the remaining increase in loans was due to increased requirements of Atomic Energy of Canada Limited, Canadian National Railways and the Canadian Dairy Commission.

B. Annuities, Insurance and Pensions

The annuities, insurance and pension accounts provided a source of funds of \$1,025 million. The drop of \$303 million from the previous year resulted from the \$592 million swing into deficit of the unemployment insurance account more than offsetting the normal upward movement of the superannuation accounts as a source of funds.

C. Other Transactions

These transactions gave rise to a source of funds of \$1,799 million in 1975-76 as compared to only \$34 million in 1974-75. This category includes entries which are subject to wide fluctuations such as accounts payable, cash in transit and outstanding cheques. Cash in transit, for example, has provided a source of funds in 1975-76 of \$1023 million whereas it had given rise to a requirement in 1973-74 of \$854 million.

III. Foreign Exchange Transactions

Foreign exchange transactions include not only the operations of the Exchange Fund Account in maintaining orderly conditions in the exchange markets but also the use of foreign exchange by various government departments for the purchase of foreign goods and services. Subscriptions and notes payable to international organizations, unmatured debt payable in foreign currency and such items as the exercise of special drawing rights are also included. Total foreign exchange transactions gave rise to a requirement of \$190 million during 1975-76. In 1974-75, these transactions provided a source of funds amounting to \$496 million.

IV. Unmatured Debt Transactions

Net Canada Savings Bonds sales of \$2,602 million, together with an increase of \$2,030 million in marketable bonds and treasury bills outstanding, led to an increase of \$4,632 million in unmaturing debt outstanding.

V. Level of Cash Balances at End of Period

Financial requirements, including exchange transactions, exceeded the increase in unmaturing debt outstanding by \$153 million. As a result, cash balances fell from \$3,205 million at the end of 1974-75 to \$3,052 million at the end of 1975-76.

**Government of Canada
Public Accounts Presentation
Summary Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
I. Budgetary Transactions					
A. Revenues	16,344	18,821	21,863	28,067	29,811
B. Expenditures	-17,046	-18,645	-22,839	-29,245	-33,887
Surplus or Deficit (-)	-702	176	-976	-1,178	-4,076
II. Non-Budgetary Transactions					
A. Loans, Investments & Advances	-1,627	-1,384	-1,744	-2,227	-3,338
B. Annuity, Insurance & Pension Accounts	303	-458	749	1,328	1,025
C. Other Transactions	689	413	509	34	1,799
Net Source or Requirement (-)	-635	-1,429	-486	-865	-514
Financial Requirements (Excluding Foreign Exchange)	-1,337	-1,253	-1,462	-2,043	-4,590
III. Foreign Exchange Transactions	-700	-130	76	496	-190
Total Financial Requirements ⁽¹⁾	-2,037	-1,383	-1,386	-1,547	-4,780
IV. Unmatured Debt Transactions**	2,359	1,782	197	3,942	4,627
Change in Cash Balance ⁽²⁾	322	399	-1,189	2,395	-153
V. Level of Cash Balance at End of Period	1,600	1,999	810	3,205	3,052

(1) Cash Requirement (-)

(2) Cash Decrease (-)

*Preliminary Actuals

**Excluding change in unmaturing debt outstanding payable in foreign currency and change in the special non-marketable bonds held by the Unemployment Insurance Commission.

Note — To provide a consistent historical record the Old Age Security transactions are treated as budgetary throughout. In the official Public Accounts, the change in the status of these transactions from non-budgetary to budgetary came into effect on July 1, 1975.

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
I. Budgetary Transactions					
A. Revenues					
Tax Revenues					
Personal Income Tax	(7,227)	(8,378)	(9,226)	(11,710)	(12,703)
Deductions at Source	5,760	6,840	7,404	9,606	10,187
Other Collections	1,467	1,538	1,822	2,104	2,516
Corporate Income Tax	2,396	2,920	3,710	4,836	5,748
Non-Resident Tax	288	292	324	427	481
Sales Tax	2,653	3,052	3,590	3,866	3,441
Oil Export Tax/Charge	—	—	287	1,669	1,063
Gasoline Tax	—	—	—	—	399
Other Excise Taxes	388	400	408	414	429
Excise Duties	607	638	686	748	811
Customs Import Duties	989	1,182	1,384	1,809	1,886
Other Tax Revenues	132	61	14	7	11
Total Tax Revenues	14,680	16,923	19,629	25,486	26,972
Non-Tax Revenues					
Return on Investments					
Central Mortgage & Housing Corporation	321	367	400	447	521
Farm Credit Corporation	72	77	79	87	108
Exchange Fund	194	203	220	269	252
Bank of Canada	265	301	373	481	583
Other	281	317	417	547	636
	1,133	1,265	1,489	1,831	2,100
Postal Revenues	404	470	480	486	437
Other	127	163	265	264	302
Total Non-Tax Revenues	1,664	1,898	2,234	2,581	2,839
Total Revenues	16,344	18,821	21,863	28,067	29,811

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
I. Budgetary Transactions					
B. Expenditures					
Agriculture	295	322	426	664	647
Energy, Mines and Resources	(179)	(171)	(342)	(1,366)	(1,828)
Oil Price Stabilization	—	—	157	1,162	1,582
Other	179	171	185	204	246
Environment	211	258	316	383	447
External Affairs	(318)	(388)	(439)	(549)	(693)
Canadian International Development Agency	219	275	300	380	473
Other	99	113	139	169	220
Finance	(3,670)	(3,948)	(4,617)	(6,006)	(6,950)
Public Debt Charges	2,137	2,321	2,592	3,208	3,953
Fiscal Transfers and Contracting-out Payments	1,426	1,501	1,874	2,639	2,701
Other	107	126	151	159	296
Indian Affairs & Northern Development	443	511	595	672	837
Industry, Trade and Commerce	369	412	400	450	622
Manpower and Immigration	(826)	(814)	(1,643)	(1,684)	(1,827)
Development & Utilization of Manpower	581	715	699	681	850
Unemployment Insurance Commission	172	40	879	923	878
Other	73	59	65	80	99
National Defence	1,862	1,932	2,232	2,508	2,980
National Health and Welfare	(4,917)	(5,447)	(6,559)	(8,390)	(9,730)
Family and Youth Allowances	614	608	993	1,824	1,958
Hospital Insurance	845	961	1,066	1,308	1,709
Medicare	576	631	678	763	796
Canada Assistance Plan	457	477	507	661	886
Old Age Security Benefits	2,205	2,524	3,035	3,445	3,934
Other	220	246	280	389	447
National Revenue	200	237	270	352	385
Post Office	443	496	591	732	901
Public Works	344	374	470	524	622
Regional Economic Expansion	348	360	412	441	484
Secretary of State	(842)	(926)	(1,026)	(1,155)	(1,317)
Post-secondary Education	450	481	485	504	535
Canadian Broadcasting Corporation	181	205	239	299	344
Bilingualism Development	78	73	96	94	115
Other	133	167	206	258	323
Solicitor General	264	307	350	450	576
Transport	516	599	827	1,303	1,197
Veterans Affairs	430	452	538	619	683
Other Departmental Expenditures	569	691	786	997	1,161
Total Expenditures	17,046	18,645	22,839	29,245	33,887

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
II. Non-budgetary Transactions (Source/Requirement -)					
A. Loans, Investments and Advances					
Crown Corporations and Agencies					
Lending Institutions	(-785)	(-633)	(-676)	(-1,060)	(-1,926)
Central Mortgage and Housing Corporation	-656	-475	-375	-735	-1,062
Export Development Corporation	-108	-124	-141	-93	-381
Farm Credit Corporation	-30	-43	-170	-243	-297
Federal Business Development Bank	-	-	-	-	-197
Municipal Development Loan Board	9	9	10	11	11
All Other Crown Corporations	(-435)	(-126)	(-382)	(-477)	(-924)
Air Canada	-27	14	-	-145	3
Atomic Energy of Canada Ltd.	-112	-77	-62	-87	-206
Canadian National Railways	-202	2	-205	-143	-213
Petro-Canada	-	-	-	-	-231
Other	-94	-65	-115	-102	-277
Other Loans	(-407)	(-625)	(-686)	(-690)	(-488)
Finance	-113	-117	-100	-65	-62
Regional Economic Expansion	-32	-64	-61	-52	-30
Canada Development Corporation	-25	-162	-75	-50	-
Loans to Developing Countries	-143	-144	-183	-230	-264
Other	-94	-138	-267	-293	-132
Total Loans, Investments and Advances	-1,627	-1,384	-1,744	-2,227	-3,338
B. Annuity, Insurance & Pension Accounts					
Canada Pension Plan	32	43	41	53	77
Unemployment Insurance Account	-459	-1,351	-282	23	-569
Superannuation Accounts	728	851	988	1,220	1,448
Government Annuities	-10	-13	-19	-21	-4
Other	12	12	21	53	73
Total Annuity, Insurance and Pension Accounts	303	-458	749	1,328	1,025
C. Other Transactions					
Interest and Matured Debt	320	368	319	423	662
Accounts Payable and Accrued Salaries	81	105	444	-109	50
Cash in Transit	71	-104	-854	-72	1,023
Outstanding Cheques, Warrants and Money Orders	131	16	539	5	-26
Other	86	28	61	-213	90
Total Other Transactions	689	413	509	34	1,799
Net Non-Budgetary Requirements	-635	-1,429	-486	-865	-514

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
III. Foreign Exchange Transactions (Source/Requirement -)					
Exchange Fund Account	-938	-125	175	673	39
International Monetary Fund					
Subscriptions	8	-51	-105	44	-89
Notes Payable	115	103	137	-74	73
Other International Organizations					
Subscriptions, Advances and Loans	-51	-107	-125	-141	-158
Notes Payable	25	52	70	44	-23
Unmatured Debt Outstanding - Payable in Foreign Currency	-2	-2	-76	-50	-32
Special Drawing Rights	117	-	-	-	-
Columbia River Treaty	26	-	-	-	-
Total Foreign Exchange Transactions	-700	-130	76	496	-190
IV. Unmatured Debt Transactions (Increase/Decrease -)					
Marketable Bonds Payable in Canadian Currency	363	36	93	671	1,165
Treasury Bills	95	460	615	725	865
Canada Savings Bonds	1,907	1,277	-583	2,509	2,602
Other	-1	22	8	9	-22
Less:					
Unmatured Debt Payable in Foreign Currency	2	2	76	50	32
Securities Issued to Canada Pension Plan	-7	-7	-8	-9	-10
Securities Investment Account	-	-8	-4	-13	-5
Total Unmatured Debt Transactions	2,359	1,782	197	3,942	4,627
V. Level of Cash Balance at End of Period					
In Canadian Dollars	1,582	1,984	801	3,186	3,037
In Foreign Currency	18	15	9	19	15

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
<i>Canada Pension Plan</i>					
Receipts					
Employer and Employee Contributions	826	897	1,019	1,239	1,489
Investment Income and Other Receipts	275	346	424	519	642
Disbursements					
Pensions	-143	-206	-279	-399	-590
Administration Expenses	-23	-23	-24	-30	-33
Purchase of Securities					
Provincial or Provincial Guarantee	-903	-971	-1,099	-1,276	-1,431
Net	32	43	41	53	77

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
<i>Unemployment Insurance Account</i>					
Receipts					
Government Contribution	92	37	878	920	870
Employer and Employee Contributions	571	763	1,024	1,622	2,081
Investment Income	27	1	1	1	2
Disbursements					
Benefits	-1,123	-2,021	-2,014	-2,351	-3,321
Interest Payments	—	—	-28	-30	-14
Administration Expenses	-26	-131	-143	-139	-187
Net	-459	-1,351	-282	23	-569
Financial Arrangements					
Change in Government Bonds Outstanding	315	—	—	—	—
Change in Government Advances					
— Interest Bearing	—	310	245	-170	-315
— Non-Interest Bearing	184	981	—	107	821
Change in Unemployment Insurance Account					
— Warrants Outstanding	24	-3	5	42	62
— Other	-64	63	32	-2	1
	459	1,351	282	-23	569

*Preliminary Actuals

**Government of Canada
Public Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
<i>Superannuation Accounts</i>					
<i>Public Service Superannuation Account</i>					
Receipts					
Government Contribution	89	105	116	141	156
Employee Contribution	104	115	131	155	188
Crown Corporations — Employer and Employee Contributions	15	17	19	23	25
Interest	164	184	203	227	264
Actuarial Liability	244	160	171	626	463
Other	2	13	5	6	5
Disbursements					
Annuities	-106	-122	-139	-162	-188
Other	-13	-15	-24	-23	-23
Change in Unamortized Portion of Actuarial Deficiency	-92	20	20	-353	-131
Net	407	477	502	640	759
<i>Canadian Forces Superannuation Account</i>					
Receipts					
Government Contribution	74	79	87	91	99
Employee Contribution	42	44	49	52	59
Interest	147	163	190	218	243
Actuarial Liability	229	213	576	461	457
Other	—	—	—	—	—
Disbursements					
Annuities	-97	-115	-130	-146	-161
Other	-5	-5	-6	-9	-10
Change in Unamortized Portion of Actuarial Deficiency	-104	-46	-325	-144	-70
Net	286	333	441	523	617
<i>R.C.M.P. Superannuation Account</i>					
Receipts					
Government Contribution	11	13	15	19	23
Employee Contribution	6	8	8	11	14
Interest	8	9	12	14	17
Actuarial Liability	—	18	14	38	45
Other	—	—	—	—	—
Disbursements					
Annuities	-1	-2	-2	-3	-3
Other	—	—	-1	-1	-2
Change in Unamortized Portion of Actuarial Deficiency	11	-5	-1	-21	-22
Net	35	41	45	57	72
Total Superannuation Accounts	728	851	988	1,220	1,448

*Preliminary Actuals

Summary of Extended National Accounts

The National Income and Expenditure accounts were developed as a basis for economic analysis of income and expenditure flows in the economy as a whole. The concepts and definitions applied to the government sector are consistent with those applied to other sectors and follow international practices developed under the aegis of the United Nations. The economic nature of a transaction is the determining factor in its classification within the national accounts framework. The extended national accounts present, in addition to the traditional national accounts revenue, expenditure and balance shown here under the heading "current transactions", the items which account for the difference between the national account budget balance and total public account financial transactions. In 1975-76, the net difference between the national account deficit of \$4,235 and total financial requirements excluding foreign exchange, was \$355 million.

I. Current Transactions

A. Revenues

Revenues rose, in 1975-76, by \$2,070 million or 6.9 per cent above the previous year, as compared to the 26.6 per cent year-over-year increase experienced in 1974-75. The economic slowdown together with large tax reductions were the main causes of this drop in the growth rate.

B. Expenditures

Expenditures rose \$5,696 million or 18.6 per cent above the previous year. Transfer payments to persons increased by \$2.0 billion, reflecting in part a \$1 billion increase in unemployment insurance benefit payments and \$489 million increase in old age security payments. Oil subsidies were up by \$420 million. Interest on the public debt and expenditures on goods and services were up \$746 million and \$1,188 million respectively.

II. Loans and Other Transactions

A. Loans, Investments and Advances

Loans, investments and advances to crown corporations and agencies rose by \$882 million or 44.8 per cent over the previous year. Apart from the loans to Petro Canada, all of this increase was in loans to lending institutions.

B. Cash vs Accruals

The accrual accounts provided a source of funds of \$1,650 million more than in the previous year. By far, the largest single item in this increase was the excess of corporate tax collections over accruals which rose by \$814 million.

C. Other Transactions

Other transactions provided a source of \$182 million compared to a requirement of \$129 million last year. This largely reflects the swing of \$254 million in the provincial tax collections account.

Government of Canada
Extended National Accounts Presentation
Summary Statement of Transactions

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
I. Current Transactions					
A. Revenues	17,828	20,549	23,745	30,060	32,130
B. Expenditures	-18,071	-20,805	-23,791	-30,669	-36,365
Surplus or Deficit (-)	-243	-256	-46	-609	-4,235
II. Loans and Other Transactions					
A. Loans, Investments and Advances	-1,454	-1,213	-1,454	-1,968	-2,850
B. Cash vs Accruals	193	161	7	663	2,313
C. Other Transactions	167	55	31	-129	182
Net Source or Requirement (-)	-1,094	-997	-1,416	-1,434	-355
Total Financial Requirements (Excluding Foreign Exchange)	-1,337	-1,253	-1,462	-2,043	-4,590
III. Foreign Exchange Transactions (1)	-700	-130	76	496	-190
Total Financial Requirements (1)	-2,037	-1,383	-1,386	-1,547	-4,780
IV. Unmatured Debt Transactions (2)**	2,359	1,782	197	3,942	4,627
Change in Cash Balance (2)	322	399	-1,189	2,395	-153
V. Level of Cash Balance at End of Period	1,600	1,999	810	3,205	3,052

(1) Cash Requirement (-)

(2) Cash Decrease (-)

* Forecast

** Excluding change in unmatured debt outstanding payable in foreign currency and change in the special non-marketable bonds held by the Unemployment Insurance Commission.

**Government of Canada
Extended National Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
I. Current Transactions					
A. Revenues					
Direct Taxes					
Persons	8,521	9,899	11,103	14,240	16,000
Corporations	2,598	2,975	3,700	4,642	4,885
Non-Residents	284	298	321	440	485
Total Direct Taxes	11,403	13,172	15,124	19,322	21,370
Indirect Taxes	4,651	5,306	6,485	8,360	8,072
Other Current Transfers from Persons	4	6	6	7	8
Investment Income	1,520	1,788	1,814	2,009	2,285
Capital Consumption Allowances	250	277	316	362	395
Total Revenues	17,828	20,549	23,745	30,060	32,130
B. Expenditures					
Current Goods and Services					
Defence	1,895	1,998	2,283	2,583	3,000
Non-Defence	3,194	3,626	4,125	5,054	5,825
Total Current Goods and Services	5,089	5,624	6,408	7,637	8,825
Transfer Payments to Persons	5,033	6,468	7,486	9,123	11,100
Subsidies	540	647	983	2,389	3,025
Capital Assistance	174	227	179	202	375
Current Transfers to Non-Residents	249	304	339	437	530
Interest on the Public Debt	2,068	2,301	2,547	3,164	3,910
Transfers to Provinces	4,250	4,474	4,954	6,598	7,325
Transfers to Local Governments	113	140	124	139	175
Gross Capital Formation	555	620	771	980	1,100
Total Expenditures	18,071	20,805	23,791	30,669	36,365

*Forecast

**Government of Canada
Extended National Accounts Presentation
Detailed Statement of Transactions**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
II. Loans and Other Transactions (Source/Requirements—)					
A. Loans, Investments and Advances					
Lending Institutions					
Central Mortgage and Housing Corporation	-656	-475	-375	-735	-1,062
Export Development Corporation	-108	-124	-141	-93	-381
Farm Credit Corporation	-30	-43	-170	-243	-297
Veterans Land Act	-10	-2	-7	-14	19
Federal Business Development Bank	—	—	—	—	-197
Total	-804	-644	-693	-1,085	-1,918
Regional Economic Development					
Stabilization & Development Loans to Provinces	-139	-135	-108	-68	-76
Regional Economic Expansion	-32	-64	-61	-52	-30
Industry, Trade & Commerce — Miscellaneous Loans	-2	-7	-12	-29	-43
Municipal Development Loan Board	9	9	10	11	11
Total	-164	-197	-171	-138	-138
Transportation and Communications					
Air Canada	-27	14	—	-145	3
Canadian National Railways	-202	2	-205	-143	-213
St. Lawrence Seaway	-54	-32	-6	1	—
Canadian Broadcasting Corporation	-26	-14	-47	—	-1
Other	-8	-25	-50	-52	-67
Total	-317	-55	-308	-339	-278
Loans to Other Levels of Government					
Domestic	5	-7	-12	-41	9
International	-107	-107	-146	-192	-226
Total	-102	-114	-158	-233	-217
Miscellaneous					
Petro-Canada	—	—	—	—	-231
Canada Development Corporation	-25	-162	-75	-50	—
Other	-42	-41	-49	-123	-68
Total	-67	-203	-124	-173	-299
Total Loans, Investments and Advances	-1,454	-1,213	-1,454	-1,968	-2,850
B. Accrual Accounts					
Interest Accounts	314	356	319	466	720
Supplementary Period Accounts	-9	-40	-170	64	701
Corporate Income Tax	-224	-171	-319	-23	791
Oil Export Tax/Charge	—	—	-359	160	127
Gross Capital Formation	-19	—	-3	-9	—
Outstanding Cheques, Warrants and Money Orders	131	16	539	5	-26
Total Cash vs Accruals	193	161	7	663	2,313
C. Other Transactions					
Provincial Tax Collection Account	130	8	-44	-196	58
Other	37	47	75	67	124
Total Other Transactions	167	55	31	-129	182

*Forecast

Reconciliation—Public Accounts and Extended National Accounts

While the public accounts and the extended national accounts presentations build to the same total financial requirement figures, there do exist differences in the treatment of transactions in arriving at the budgetary balance on a public accounts basis as opposed to the surplus or deficit on a national income and expenditure basis. These differences are necessarily reversed in the non-budgetary components of total financial requirements.

Reconciliations of expenditures, revenues, and non-budgetary transactions according to the two systems of accounts, are set out in the tables that follow. The major factors which give rise to reconciliation are listed below:

In the public accounts, post office revenues and expenditures are considered as budgetary transactions. In the national accounts, the service provided by the post office is considered to be business rather than governmental in nature and post office revenues and expenditures, as such, are not included in the national accounts government sector. However, the deficit or surplus of the post office is credited to investment income of its 'owner', the government.

The deficits of government business enterprises which are considered to be outside the government are, for public accounts purposes, met through a budgetary appropriation and thus recorded as budgetary expenditures. In the national accounts, these deficits are netted against government investment income.

Revenues in the public accounts are recorded on a cash basis. While the major portion of national accounts revenues is also accounted for on a cash basis certain items, such as corporate income taxes and oil export taxes, are recorded on an accrual basis.

Both government employee pension accounts and the unemployment insurance account are treated as non-budgetary in the public accounts, though the government's contributions to the accounts and interest payments on debt held by the accounts form part of budgetary expenditures. Employer and employee contributions to these accounts plus any interest income of the accounts form part of government revenues on the national accounts basis, and benefit payments form part of government expenditures.

In the public accounts, the purchase of capital assets—such as buildings and machinery—is recorded as a budgetary expenditure in the year of acquisition. Only newly produced capital assets figure in the national accounts expenditures. In addition, both government revenue and government expenditure in the national accounts include an allowance for the depreciation of capital assets; no such provision is made in the public accounts.

The national accounts universe includes certain government agencies not part of the public accounts universe. The actual expenditures of these agencies form part of national accounts expenditures, and public accounts budgetary transfers or public accounts loans and advances to these agencies are thus among the items subtracted in going from public accounts expenditures/loans investments and advances to extended national accounts expenditures/loans in the reconciliation statements.

**Government of Canada
Public Accounts and Extended National
Accounts Reconciliation
Revenues**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
Budgetary Revenues — Public Accounts	16,344	18,821	21,863	28,067	29,811
Deduct					
Post Office Revenues and Deficit	-413	-464	-591	-746	-901
Deficit of Government Business Enterprises	-92	-89	-125	-219	-176
Excess of Accruals over Collections					
Corporate Income Tax	224	171	319	23	-791
Oil Export Tax/Charge	—	—	359	-160	-127
Add					
Government Pension and Social Security Receipts	1,567	1,917	2,392	3,304	4,107
Capital Consumption Allowances	250	277	316	362	395
Miscellaneous Adjustments**	-52	-84	-788	-571	-188
Total Revenues — Extended National Accounts	17,828	20,549	23,745	30,060	32,130

*Forecast

**These items represent, for example, the proceeds from the sale of existing capital assets; budgetary revenues items offset against budgetary expenditures; imputed items; and an adjustment for the treatment of revenues in the supplementary period.

**Government of Canada
Public Accounts and Extended National
Accounts Reconciliation
Expenditures**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
			(\$ Millions)		
Budgetary Expenditures – Public Accounts	17,046	18,645	22,839	29,245	33,887
Deduct					
Budgetary Transfers to Funds & Agencies	-663	-674	-1,595	-1,859	-1,963
Post Office Expenditures	-413	-464	-591	-746	-901
Deficit of Government Business Enterprises	-92	-89	-125	-219	-176
Add					
Expenditures of Funds and Agencies	667	729	923	1,168	1,422
Government Pensions and Social Security Disbursements	1,407	2,454	2,514	2,921	4,022
Capital Consumption Allowances	250	277	316	362	395
Miscellaneous Adjustments**	-131	-73	-490	-203	-321
Total Expenditures – Extended National Accounts	18,071	20,805	23,791	30,669	36,365

*Forecast

**These items represent, for example, reserves and write-offs; purchase of existing capital assets; budgetary revenue items offset against budgetary expenditures; expenditures of reserve accounts and revolving funds; imputed items; and an adjustment for the treatment of expenditures in the supplementary period.

**Government of Canada
Public Accounts and Extended National
Accounts Reconciliation
Non-Budgetary**

	Fiscal Year Ending March 31st				
	1972	1973	1974	1975	1976*
	(\$ Millions)				
Non-Budgetary Transactions — Public Accounts	635	1,429	486	865	514
Deduct					
Loans and Advances to Funds and Agencies	-173	-171	-290	-259	-488
Government Pensions and Social Security Accounts	281	-488	727	1,296	952
Excess of Accruals over Collections					
Corporate Income Tax	-224	171	319	23	-791
Oil Export Tax/Charge	—	—	359	-160	-127
Miscellaneous Adjustments**	127	56	-185	-331	295
Loans and Other Transactions — Extended National Accounts	1,094	997	1,416	1,434	355

* Forecast

** These items represent, for example, the adjustments for the treatment of revenues and expenditures in the supplementary period; the change in the reserves and revolving funds; and the adjustment required to bring financial requirements of entities included in the National Accounts government sector with the requirements of these entities which are met through the Consolidated Revenue Fund.

Budget Paper C

Capital Cost

Allowances

Contents

- I Introduction
- II History and Perspective
- III The Survey of Financial Depreciation Practices of Canadian Corporations
- IV International Comparison of Tax Depreciation Practices
- V Overall Evaluation of the Capital Cost Allowance System
- VI Review of Basic Capital Cost Allowance Rates
- VII Limitation of Capital Cost Allowance on Leasing of Moveable Property

Appendices

- 1 Relationship of Capital Cost Allowances to Financial Depreciation of Surveyed Corporations
- 2 Comparison of Net Book Value and Undepreciated Capital Cost of Surveyed Corporations
- 3 International Comparison of Tax Depreciation on Buildings and Equipment used in Manufacturing
- 4 Survey Results for Selected Asset Categories, and Related Budgetary Proposals

Budget Paper C, Capital Cost Allowances, has also been published under separate cover and copies are available to the public. Requests should be addressed to:

*Distribution Centre,
Department of Finance,
160 Elgin Street,
Ottawa, Ontario.
K1A 0G5*

I

Introduction

In 1973 the federal government initiated an intensive review of Canada's system of capital cost allowances. This work has now progressed to the point where the government has arrived at a view on the basic structure of capital cost allowances, and on some changes which should be made in the basic rates of capital cost allowance. These are presented in the federal budget of May 25, 1976. A proposal is also set forward in the budget to prevent the sheltering of income from taxation through capital cost allowances on leased moveable property.

This paper gives further background and commentary on the study and the budgetary proposals. It outlines the origin of the present capital cost allowance system, reviews the nature and results of the surveys which were undertaken, and presents an overall evaluation of the system. It reviews the basic rates for the main asset categories, and comments upon the proposed rate changes as well as the proposal to prevent the sheltering of income through capital cost allowances.

II History and Perspective

The present capital cost allowance system, under which a taxpayer claims the cost of depreciable assets as a deduction against his taxable income, has been in effect since 1949. Many of its features were adopted to overcome difficulties in the previous method, which had existed since the introduction of the Income War Tax Act in 1917.

Depreciation Under the Income War Tax Act

The Income War Tax Act provided for the deduction from income of "such reasonable allowances as may be allowed by the Minister for depreciation."⁽¹⁾ Experience over time established a number of maximum rates which taxpayers found were usually acceptable to the administration, but individual rates were still negotiated. These rates were generally based on the straight-line method of depreciation,⁽²⁾ and reflected what was considered to be useful life of the asset.

During the Second World War, certain accelerated allowances and tax credits were introduced to expand wartime production facilities, and in 1944 special depreciation was granted to facilitate the transition of the economy to peacetime. This special depreciation, reflecting a new philosophy by the government towards using tax depreciation as a fiscal tool, permitted the taxpayer to claim depreciation at double the ordinary rates on up to 80 per cent of the cost of new investments in buildings, machinery and equipment acquired in the period from November 10, 1944 to March 31, 1949.

The depreciation system under the Income War Tax Act was subsequently described in a study published by the Royal Commission on Taxation in 1967.⁽³⁾ According to this study, the system generally "permitted a fair allowance which closely approximated that provided by businesses"⁽⁴⁾ and "provided a good measure of depreciation in arriving at business income."⁽⁵⁾ However, weaknesses were significant and were summed up in the Commission's report as follows: "Under the *Income War Tax Act* depreciation on a straight-line basis was permitted on tangible assets, but only at the discretion of the Minister. Depreciation was considered to be essentially an allowance for wear and tear, so that it could apply only to tangible assets actually in use, and did not take into account the diminishing value due to obsolescence. There was dissatisfaction with the system because no official rates were ever published, and a taxpayer could never know whether he was receiving the same allowance as his competitors in the same business. Profits or losses on disposal of depreciable assets were considered capital in nature and were not taxable or deductible."⁽⁶⁾

⁽¹⁾ The Income War Tax Act, R.S.C. 1927, Section 5(a).

⁽²⁾ Under the straight-line method, the cost of an asset is written off in even annual amounts over its useful life. For example, if a building has a useful life of 40 years, the annual straight-line depreciation would be 2½ per cent of its original cost net of any salvage value.

⁽³⁾ Studies of the Royal Commission on Taxation No. 21, Capital Cost Allowance, 1967.

⁽⁴⁾ *Ibid.*, page 1.

⁽⁵⁾ *Ibid.*, page 3.

⁽⁶⁾ Report of the Royal Commission on Taxation, Vol. 4, 1967, Taxation of Income, page 237.

The Capital Cost Allowance System

Under the new capital cost allowance system introduced in 1949, the taxpayer was given a statutory right to claim capital cost allowances as prescribed by regulation. Simplicity was achieved in the determination of allowances by grouping assets under a relatively small number of classes and by calculating the allowances on the diminishing balance method. Unlike the straight-line method of depreciation which required much more detailed record-keeping and calculation, diminishing balance depreciation was calculated by applying a rate to a total amount for assets within a particular class. More specifically, the annual capital cost allowance was the amount determined by applying the class rate to the undepreciated capital cost of assets in the class at the end of the taxation year. Undepreciated capital cost was the accumulated balance arising from the cost of all additions to date less proceeds of disposal and capital cost allowances previously claimed. Any excess of disposal proceeds over the undepreciated capital cost balance of the class was recaptured and taken into income.

The new system also gave better recognition of obsolescence both through use of the diminishing balance method and by the treatment upon disposition of an asset. Since the diminishing balance method gave higher allowances in the early years than the straight-line method, the taxpayer was more assured of having an appropriate timing of his cost deductions where the life of an asset was shortened by unexpected technological or market developments. Furthermore, unlike the previous system, the taxpayer now knew that he would eventually be able to claim the total cost of an asset, either by way of allowances on the balance in the class, or by a terminal loss on disposition of all assets in a class.

In short, the new capital cost allowance system provided a relatively simple, legislative method by which the taxpayer could claim all the cost of his depreciable assets at an annual rate which gave some general recognition to obsolescence.

The major criticism of the system after its implementation in 1949 was directed at the regulation under which the allowances claimed for tax purposes could not exceed the depreciation recorded in the taxpayer's financial accounts. The general criticism was that whereas the government had finally given the taxpayer a statutory right to capital cost allowances, the deduction still depended upon the depreciation used for book purposes. Many corporations switched to capital cost allowances in their financial statements in order to be able to claim the maximum deduction for tax purposes. This "booking" requirement was dropped in 1954.

In the period from 1949 until tax reform in 1972, the capital cost allowance system remained basically unchanged. There was an increase in the number of classes, from 15 to almost 30, as new asset categories were found appropriate and new classes were added for specific incentive purposes. The government made extensive use of the capital cost allowances as a fiscal tool for encouraging investment in new products, grain storage, pollution control, scientific research and other activities. Temporary deferment of allowances was also used as a measure to dampen investment.

Tax Reform

In 1962, the federal government appointed a Royal Commission on Taxation to inquire into and report upon Canada's tax system, and part of its work included a review of the capital cost allowance system. In its Report in 1967 the Commission concluded that the present capital cost allowance system should be continued, subject only to certain specific modifications.

In its White Paper on tax reform in 1969, the federal government generally agreed that the capital cost allowance system had "served Canada well."⁽⁷⁾ Nevertheless, the government indicated that it intended in due course "to invite briefs on the system and rates of capital cost allowance."⁽⁷⁾ Furthermore, in the tax reform legislation which became effective in 1972, it was provided that a taxpayer (other than a real estate corporation) could not claim capital cost allowances on rented real property in excess of the income from the property.

Since tax reform, the main new incentive offered through the capital cost allowance system has been the two-year write-off for manufacturing and processing equipment, effective for acquisitions after May 8, 1972. In addition, the budget of June 23, 1975, introduced a 5 per cent investment tax credit for new buildings, machinery and equipment in the manufacturing and certain resource sectors, effective until June, 1977.

In his budget speech of February 19, 1973, the Minister of Finance announced that a thorough examination of the capital cost allowance system would be made and stated his concern that the "system for business depreciation be fair and reasonable and not a hidden method for avoiding taxation."

⁽⁷⁾ Proposals for Tax Reform, 1969, page 62.

III

The Survey of Financial Depreciation Practices of Canadian Corporations

An essential part of the examination of the capital cost allowance system has been to assess whether the classification of depreciable assets and the capital cost allowance rates appropriately reflect the useful lives of the assets. This required extensive information concerning depreciable assets, not only by their type, but also by the industry in which they were used. Such information was not available from existing sources, and it was therefore decided to make a special survey of the depreciation practices of Canadian corporations as the best practical indicator of depreciation actually being experienced. Part I of the survey questionnaire asked for statistical information concerning depreciation, and Part II asked for commentary on the corporation's depreciation policy and on the purposes and functioning of the capital cost allowance system.

Scope of Survey

For purposes of the survey, the 230,000 corporations in Canada in 1971 were broken into 27 industrial sectors. Within each sector, they were stratified into large and small corporations. All the largest corporations were surveyed, since they have the major share of Canada's depreciable assets and their depreciation practices are more likely to reflect the economic depreciation actually taking place. The smaller corporations, which constitute most of Canada's corporations but which have a minor share of the depreciable assets, were surveyed on a sample basis to obtain a representative view of their depreciation practices.

Following this approach, the survey covered 1,283 large corporations, and 2,121 smaller corporations, for a total of 3,404 corporations. The overall rate of response to the survey was 59 per cent, representing 78 per cent for the large firms, and 46 per cent for the small firms.

The raw data collected in the survey represented a considerable portion of Canadian business. Original cost and net book value of depreciable assets of all the firms responding to the questionnaire amounted to \$68.0 billion and \$41.8 billion⁽⁶⁾ respectively, about half the total value of all depreciable assets in Canada. The data for the large companies accounted for \$41.6 billion or 99.6 per cent of the total net book value for the firms, large and small, which responded to the questionnaire. The majority of the data was for the 1971, 1972 and 1973 fiscal periods.

⁽⁶⁾ The total net book value quoted here and in Appendix 1 and Appendix 2 are not identical because of differences in the data provided in various schedules of the questionnaire.

Overall Reaction

A large majority of the responses to Part II of the questionnaire expressed satisfaction⁽⁹⁾ with the current system and recommended its continuation. By far the majority of respondents acknowledged that the system was easy to comply with, and those who had experience with systems in other countries stated that the Canadian system was preferable because of this ease of compliance. The only general concern was whether the system adequately covered the effect of inflation on replacement costs.

Methods of Financial Depreciation

The methods of depreciation reported were as follows:

Table 1
Depreciation Methods by
Number of Corporations

Depreciation Method	Number of Corporations	
	Large	Small
Corporations Using Only One Method		
Straight-Line	378	49
Diminishing Balance, with CCA Rates	59	416
Diminishing Balance, with Other Rates	19	41
Production ⁽¹⁾	12	4
Other	2	—
	<u>470</u>	<u>510</u>
Corporations Using Several Methods	390	136
Total	<u>860</u>	<u>646</u>

⁽¹⁾ Under the production method, the annual depreciation is calculated by spreading the original cost over the estimated productive use of the asset.

For large corporations which use only one method of depreciation, it is therefore obvious that the straight-line method is preferred. On the other hand, the smaller corporations prefer using the diminishing balance method, with the capital cost allowance rates allowed for tax purposes. Analysis of corporations using more than one method confirms the preference of large corporations for the straight-line method,

⁽⁹⁾ This view was supported by the majority of briefs submitted to the CCA Review Group. The Review Group received 53 briefs, 25 from individuals or companies and 28 from associations.

but also shows that large as well as small corporations often use the tax system of capital cost allowances.

In terms of net book value, the table below emphasizes the predominant use of the straight-line method by large corporations. It also indicates the importance of the production method, which was used mainly in the mining industry. Among other methods, \$1.5 billion was depreciated under the sinking-fund method⁽¹⁰⁾, mainly in respect of buildings.

Table 2
Depreciation Methods by
Net Book Value

Depreciation Method	Net Book Value of Assets Surveyed			
	Large Corporations		Small Corporations	
	(\$ m)	%	(\$ m)	%
Straight-line	33,813	82	54	36
Diminishing Balance, with CCA Rates	1,308	3	58	39
Diminishing Balance, with Other Rates	961	2	13	9
Production	2,872	8	4	3
Other	2,109	5	19	1
Total	\$41,063	100	\$148	100

Principles of Financial Depreciation

Responses to questions in Part II of the questionnaire give an insight into the principles governing financial depreciation. While many of the corporations did not answer Part II or failed to complete all of the questions, a sufficient number did respond to provide some consensus.

⁽¹⁰⁾ Under the sinking-fund method, the annual amount of depreciation is the amount which, when set aside at an assumed rate of return, will accumulate a fund sufficient to cover the cost of the depreciable asset by the end of its useful life.

The replies to a question concerning the objectives of the depreciation system used for internal accounting purposes may be summarized as follows:

Table 3
Objectives of
Financial Depreciation

Objective of Depreciation	Large Corporations	Small Corporations
Match Costs against Revenue Based on Useful Life	654	228
Match CCA Claimed	55	164
Consistent Annual Measurement	32	24
Other	35	4
Total	<u>776</u>	<u>420</u>

The evidence shows that the general matching of costs against revenue was the major objective of the small as well as the large corporations. Nevertheless, as was seen in Table 1 above, the greater use by small corporations of the capital cost allowance rates was presumably also a matter of convenience.

The answers to a question concerning the review of financial depreciation practices indicate that out of all the corporations surveyed, relatively few review their depreciation methods on a frequent and regular basis:

Table 4
Review of
Financial Depreciation Practices

Frequency	Large Corporations	Small Corporations
Each Year	140	34
2-5 Years	54	5
6-10 Years	4	—
Irregular	212	26
Never	67	59
Total	<u>477</u>	<u>124</u>

A further question asked corporations to explain any modification to their basic depreciation system to take account of unanticipated obsolescence, higher replacement costs, abnormal use or any other factor. The responses showed that the

majority of corporations in the survey did not adjust their basic methods for these factors:

Table 5
Modification of
Financial Depreciation Practice

Reason for Modification	Large Corporations	Small Corporations
Obsolescence	83	10
Abnormal Use	37	1
Obsolescence and Abnormal Use	83	2
Inflated Replacement Costs	11	3
Other	79	14
None	322	232
Total	615	262

Relationship of Capital Cost Allowances to Financial Depreciation

As indicated above, an important part of the survey was to assess the relationship between capital cost allowances and financial depreciation, the latter being the most readily available indicator of useful lives. The data which was used for this purpose was the data collected in the survey, and it therefore predominantly represents the experience of the large corporations. It was felt that for the purpose of evaluating the capital cost allowance rates, it was more valid to look mainly to the large corporations, which have the resources to develop depreciation practices which reflect more accurately the actual depreciation taking place.

For reasons explained below in the overall evaluation of the capital cost allowance system in Section V, the data was analyzed to find the diminishing balance rate which would effectively cover 75 per cent of the actual depreciation (as indicated by the financial depreciation) on each significant category of asset. This equivalent diminishing balance rate, which would be indicative of a rate which substantially reflected actual experience, was then compared with the existing capital cost allowance rate.

The results of this comparison are summarized in Appendix 1. The incentive classes are excluded from this analysis since the actual depreciation there is less relevant.

The relationship of capital cost allowances to financial depreciation over a long period of years can be illustrated by comparing the balance of asset costs yet to be depreciated in financial statements ("net book value") with the balance yet to be claimed for tax purposes ("undepreciated capital cost"). Such a comparison is set out in Appendix 2, and it shows that for the surveyed corporations at the end of 1973, net book value of \$41.7 billion exceeded the undepreciated capital cost by \$9.2 billion.

This reflects the fact that the costs of depreciable assets are being written off sooner under capital cost allowances than by way of financial depreciation, partly because of the basic rates, and partly because of specific incentives. This difference in timing occurs in respect of other items of revenue and expense as well, such as exploration and development expenditures and instalment sales. It has become general practice to account for these timing differences in financial statements by adopting what is referred to as the "tax allocation" method. Under this method, income tax is recorded in the profit and loss statement in the year in which the related revenue or expense (including depreciation) is recorded. Any excess of that annual tax provision over the amount actually payable for that year is shown on the balance sheet as tax applicable, or "deferred", to future periods.

The taxes which have been so recorded as deferred in the financial statements of the surveyed corporations may be summarized as follows:

Table 6
Annual Increase in
Deferred Income Taxes of Surveyed Corporations

Related Item	1971	1972	1973
	(\$ thousands)		
Depreciation	340,455	364,208	674,191
Exploration and Development	38,628	50,799	57,157
Other	48,693	116,280	121,353
Total	\$427,776	\$531,287	\$852,701

Accumulated Deferred Income Taxes of
Surveyed Corporations at End of 1973

Related Item	End of 1973	
	(\$ thousands)	(%)
Depreciation	3,976,491	78.3
Exploration and Development	643,115	12.7
Other	457,968	9.0
Total	\$5,077,574	100.0

Of the annual increase of \$674 million in deferred taxes attributable to depreciation in 1973, approximately \$300 million related to the incentive class for manufacturing machinery and equipment. With respect to the accumulated deferred taxes of almost \$4 billion relating to depreciation at the end of 1973, almost \$800 million, or about 20 per cent, was from incentive classes.

IV International Comparison of Tax Depreciation Practices

Canada's capital cost allowance system cannot be viewed in isolation from the allowances which other countries permit for investment in depreciable assets. Thus, while the survey of domestic corporations was useful in determining a relationship to actual depreciation, a review of international tax depreciation practices was also essential. The tax allowances are an important factor in determining the effective cost of an investment, and therefore in judging whether Canada can attract sufficient investment and remain internationally competitive.

There are, of course, severe limitations on the precision of such an international comparison. There is a basic practical difficulty in assembling and digesting enough comprehensive information concerning tax depreciation practices to make even the comparison of that one aspect valid. Any overall conclusion would also have to take into account many other important factors such as special tax credits or grants, corporate tax rates, overall tax burdens and the level of interest rates, as well as the whole political and social context.

Nevertheless, a recent study sponsored by the Organization for Economic Co-operation and Development (OECD) has made a worthwhile contribution to international comparisons.⁽¹¹⁾ In comparing the relative cost of investing in different countries, it has taken into account not only tax depreciation practices, but also widely used tax credits and cash grants, and the general level of corporate tax. The study is based on a survey of 22 member countries of the OECD. Canada took part in the small working group which discussed the results of the survey during preparation of the study.

The analysis uses a capital cost index⁽¹²⁾ which reflects the relative tax cost of investing in selected types of assets in the participating countries. It is formulated in such a way that an index of 100 would arise in a system without taxation. The greater the amount by which the index exceeds 100, the larger is the increase in capital cost brought about by taxation, and therefore the less favourable the tax system. This index does not indicate the divergence from the neutrality which would exist if the capital cost allowances were equal to economic depreciation, but it is useful as a method of comparing the relative effects of the tax treatment of depreciables internationally.

⁽¹¹⁾ *International Comparison of Tax Depreciation Practices*, George Kopits, United States Treasury Department. Published in 1975 by the Organization for Economic Co-operation and Development.

⁽¹²⁾ For the development of the index see Chapter III of the publication. The capital cost index (CCI) for each type of asset was:

$$CCI = \frac{(1 - k - uz)}{1 - u} \times 100$$

where k is a tax credit or cash grant, u is the corporate tax rate and z is the present discounted value of the tax deduction with a 10 per cent discount rate.

The results of applying this index to the manufacturing sector of the 22 countries is summarized in Appendix 3. It shows that, based on provisions in existence in January, 1972, Canada's index was higher than the mean index for all these countries. For buildings, Canada's index was 166.7 compared to a mean index of 151.3; for equipment, it was 133.3 compared to a mean index of 123.4. In other words, it seems to indicate that Canada's tax treatment of investment in these depreciables was less favourable than the average at that time.

However, there are two further important modifications to make in evaluating this comparison. In the first place, the index is quite sensitive to the levels of corporate tax, and does not necessarily indicate that the tax depreciation system itself is less favourable. Thus, if a common tax rate of 40 per cent is assumed, Canada's index for the entire buildings and equipment categories turns out to be more in line with major competitors, especially in the case of buildings:

Table 7
Comparison of Tax Depreciation
for Selected Countries⁽¹⁾

Country	Median Capital Cost Index ⁽²⁾	
	All Buildings	All Equipment
CANADA	144.4	123.4
France	139.6	118.0
Germany	154.0	122.2
Japan	146.9	118.7
United Kingdom	126.9	109.5
United States	143.7	113.7
All these Countries (Mean)	142.6	117.6

(1) Assuming a common corporate tax rate of 40 per cent for all countries.

(2) In the case of equipment, the Index shown here is the mean of the medians for all the equipment groups.

Source: From Table 8, Median Capital Cost Index, By Country and By Asset Group, *International Comparison of Tax Depreciation Practices*, published by the Organization for Economic Co-operation and Development, 1975.

In the second place, the OECD survey only includes the effects of tax credits or grants in existence in January, 1972, and this is particularly important in the comparison for equipment. This may best be illustrated in the following comparison of the index for manufacturing equipment in Canada and the United States, assuming the tax credits and tax rates which existed in January, 1972 and which have been adopted subsequently:

Table 8
Comparison of Tax Depreciation
on Manufacturing Equipment

Country	Assumptions			Capital Cost Index Manufacturing Equipment
	Corporate Tax Rate	Tax Depreciation	Investment Tax Credit ⁽¹⁾	
	(%)		(%)	
Canada	50	20% Dim. Bal.	—	133.3
	40	2-year	—	108.8
	40	2-year	5	103.4
United States	48	15.2 Dim. Bal. ⁽²⁾	7	123.2
	48	15.2 Dim. Bal. ⁽²⁾	10	117.4
	36 ⁽³⁾	19.0 Dim. Bal. ⁽⁴⁾	10	103.8

(1) The investment tax credit reduces the depreciable base in Canada but not in the United States.

(2) The diminishing balance rate which is implicit in the capital cost index in the OECD study. It represents the composite effect of various diminishing balance rates and an option to switch from diminishing balance to straight-line in the later stages of an asset's useful life.

(3) A rate which could effectively apply to a Domestic International Sales (DISC) Corporation.

(4) Including effect of "Asset Depreciation Range" introduced in 1971, which permits taxpayer to assume a 20 per cent shorter useful life.

As at January, 1972, as also shown in Appendix 3, the capital cost index in the OECD study for manufacturing equipment was 133.3 for Canada, which is less favourable than the index of 123.2 for the United States. However, the relative position changes significantly when further tax measures are taken into account.

As shown in the above Table 8, the index for Canada falls to 108.8 after the manufacturing incentives of 1973, and to 103.4 after the investment tax credit of 5 per cent in 1975. On the other hand, the index for the United States would fall to 117.4 with the increase of the investment tax credit to 10 per cent in 1975, and to 103.8 after including the effect of the reduced corporate tax on "Domestic International Sales Corporations" and the increased depreciation allowance under the "Asset Depreciation Range".

Within the limitations of such an international comparison, it therefore appears that Canada's basic allowances for buildings and equipment, and its incentives in respect of manufacturing equipment, are not out of line with its major competitors—that is to say, they are in a general sense not more or less favourable to a significant degree.

International experience with systems of allowing for depreciation is also relevant. In particular, the United States experience under various systems over the years has demonstrated the difficulties in developing a precise set of allowances. Under the most recent modification of the U.S. system, known as the "Asset Depreciation Range", a taxpayer is permitted to assume a life 20 per cent shorter or longer than that in the

usual guideline lives, with the stated objective of reducing administrative difficulties in the tax depreciation system. However, their procedures remain complex, and the relative simplicity of the Canadian system has been supported by the responses from Canadian corporations which have had experience in both countries.

V

Overall Evaluation of the Capital Cost Allowance System

An evaluation of Canada's capital cost allowance system must take into account the usual criteria for a tax structure—those of equity and neutrality, certainty and simplicity, and revenue-raising capability. In addition, there must be judgment as to whether the overall effect is consistent with national economic objectives. Since these criteria are often in conflict, final conclusions cannot be based on whether any one of them is being fully met but rather on whether they are each being met to a reasonable degree. In other words, the final conclusions depend upon a weighting of the relative importance of these criteria.

For example, the goals of equity and neutrality might be met if capital cost allowances were equal to the capital consumption which is actually taking place. A taxpayer would then be assured that he was receiving adequate recognition for the consumption of his depreciable asset in computing his income, and at the same time could rest assured that another taxpayer was not receiving too large a deduction. Furthermore, in an economic sense, the capital cost allowances permitted for tax purposes would then have a neutral effect on the choice between labour and capital, between short-lived and long-lived assets, and between consumption and saving.

However, any notion that these goals of equity and neutrality can be fully achieved in the real world must be dispelled. It would require constant review of each individual depreciable asset to ascertain the pattern of its economic life in view of all its particular circumstances, such as the industry in which it is being used, the care with which it is being used, its location, etc. The variations in depreciation practices within a company and between companies have been amply demonstrated in the information provided by the survey of Canadian corporations. Furthermore, investigation of experience in other countries has demonstrated the futility of pursuing in detail the useful life of depreciable assets under various circumstances. The general conclusion is that the goals of equity and neutrality cannot be pursued too vigorously if one is to have a system with an acceptable degree of certainty and simplicity.

On the other hand, while the present system of capital cost allowances is widely accepted as being very workable, there is some suggestion that the allowances stray too far from economic depreciation actually taking place. Aside from the specific incentive allowances which are intentionally different from actual depreciation, is there a different approach to the basic allowances which would still be workable, and yet provide a greater degree of neutrality?

One general alternative would be to scrap the special tax rules and simply rely on depreciation recorded for financial reporting purposes. It does not take long to dismiss this alternative. As noted above, the endless variety of depreciation rates and methods used in Canadian financial statements was convincing evidence of the difficulty of estimating the depreciation which is taking place. If the tax deduction were to depend on the amount of the book deduction, the determination of a corporation's tax liability would then (within a wide range) depend upon the accounting procedures followed,

and would furthermore have a damaging effect on the evolution of financial reporting methods. This conclusion is well proven by the experience with the "booking" requirement in the period 1949 to 1954.

Another possibility would be to use the straight-line rather than the diminishing balance method of calculation, since the straight-line method is still the one predominantly used in financial reporting. However, there are important reasons against its general adoption for tax purposes. First, the very detailed record-keeping required makes it too complex for a general tax depreciation system. The response from the small corporations which were surveyed showed their strong preference for using the diminishing balance method, and this sample was representative of over 200,000 corporations. Secondly, in view of the uncertainty about the individual patterns of useful life and the unpredictable nature of obsolescence, it is better in a regime of general application to provide higher allowances in early years. Thirdly, except in the case of buildings, the diminishing balance method is the most widely used internationally.

These considerations re-affirm the existing general precepts of a legislative system of allowances, based on the diminishing balance method. Could the allowances thereunder nevertheless be more closely related to economic depreciation by a greater number of classes and a wider variety of rates? Under the present system, assets are classified mainly by type (buildings, automotive equipment, roads, pipelines, etc.) rather than by the industry in which they are used, by abnormal use, by location, etc..

The most likely direction to consider would be a further classification of asset type by industry, and the survey of Canadian corporations did give a considerable amount of information along these lines. However, study of this information and further reflection leads to the conclusion that this would not generally be a viable course to pursue. The variation in depreciation experience between industries is not sufficiently marked to warrant the resulting complication of the class structure. Furthermore, discussions with officials of other countries confirm that difficulties of definition and changing experience would lead to constant classification and reclassification, to little avail except adding to the confusion of the taxpayer and to his difficulties in making investment decisions.

In sum, the government's view is that the present system of capital cost allowances is basically sound in generally providing a legislative system of allowances, with a relatively small number of classes, and the diminishing balance method of calculation.

In reaching this conclusion, however, it still follows that the basic rates within such a relatively simple system should be related as closely as practicable to economic depreciation, unless there are specific national economic objectives to the contrary. Thus, in utilizing the results of the corporate survey in Canada, the financial depreciation recorded in financial statements (which is taken as the best available proxy for economic depreciation) was converted to diminishing balance rates which provided an equivalent result in terms of present value. In this way, the relationship of present capital cost allowance rates to economic depreciation was evaluated.

For a capital cost allowance rate to be acceptable, it is necessary that the rate cover most of the business experience, for otherwise there could be too many taxpayers for whom the allowances would be significantly inadequate. Their requests for relief would only lead down the trail to a complex system. Accordingly, as a rough rule of thumb, the appropriate capital cost allowance rate is taken as that which would be adequate to cover about 75 per cent of the actual business experience as shown by the survey.

After this assessment of the capital cost allowance rates in relation to actual business experience, and after consideration of national economic objectives, it is concluded that the basic rates for most types of assets need not be changed. However, there are some basic rates which are clearly inadequate, and some others which are unnecessarily high. Furthermore, two groupings of assets under a composite rate should be broken up into several more homogeneous categories.

The results of this overall review of basic rates for selected asset categories are summarized in Appendix 4 and commented upon in the next Section.

After making these changes, the basic rates will still remain somewhat in the taxpayer's favour, in the interests of an acceptable system and one which all taxpayers (including small corporations) can readily apply. Accordingly, there will be many cases where capital cost allowances are claimed more quickly for tax purposes than depreciation estimates are recorded in financial statements. Under the "tax allocation" method of accounting, some taxes will therefore continue to be shown as deferred to future years when the annual capital cost allowances fall below the annual depreciation estimates. Further deferment of taxes may arise as a result of accelerated allowances for specific incentives.

This result is quite consistent with the attainment of the government's national economic objectives. Aside from the need for a viable tax system, there continues to be a general compelling need for capital investment in this country; a general incentive in the form of a slightly generous system of basic rates is to be desired. Furthermore, if Canada is to attract investment and remain internationally competitive, international comparisons demonstrate not only the need for reasonably generous basic rates, but specific incentives as well. Finally, so long as inflation continues, even at a diminished rate, the somewhat faster tax write-offs provide funds needed to offset the adverse effects of inflation on the real level of business investment.

At the same time, however, it is intended that these advantages be channeled to those taxpayers most directly connected with their productive use. There is no reason to permit the unwarranted deduction of capital cost allowances where a taxpayer's income can thereby be sheltered from a fair level of taxation. Under the present system, there are often instances where leasing arrangements for moveable property are entered into so that the lessor can create a loss through capital cost allowances, for offsetting against non-leasing income. *To limit this sheltering of income, it is concluded that the capital cost allowances on leasing of moveable property should be limited to the income therefrom.* This proposal is explained in more detail in Section VII.

VI

Review of Basic Capital Cost Allowance Rates

As indicated above, most of the basic rates (aside from those for specific incentive purposes) are appropriate to cover most of the range of economic depreciation actually experienced. No change in these rates is proposed. There are, however, certain identifiable types of assets for which the present capital cost allowance rates are inadequate and it is proposed that these assets be reclassified to have a rate which would more adequately reflect real depreciation. On the other hand, there are certain types of assets for which the rate is unnecessarily high and certain rate reductions are proposed. Furthermore, certain assets in a railway system or a telephone system are grouped together under a composite rate, and it is proposed that they be broken up into categories which better reflect the diversity in their useful lives.

A summary of the status of the basic rates for the main types of assets is set out in Appendix 4. The commentary below gives further explanation concerning the rates reviewed in that Appendix.

No Change in Rates

Among the types of assets for which no change in rates is recommended, the buildings and equipment categories are the most important.

Buildings

In the case of the main type of buildings made of concrete, steel, etc., which are included in Class 3, the present diminishing balance rate of 5 per cent is adequate to cover the bulk of assets.

Within this broad category, the survey does indicate a wide variety of experience. For a substantial portion of these buildings, which may be factories, office buildings or apartments, the 5 per cent rate is more than adequate. On the other hand, there is a significant portion of these buildings which would require a higher rate because of their specialized nature or because of the particular industry in which they are employed.

However, a more precise system of rates would require a detailed classification by type of buildings as well as by use or location, and such a detailed classification would be subject to annual review and adjustment for special changes in some circumstances. Furthermore, as evidenced by the variety of depreciation methods used by respondents (ranging from straight-line to sinking fund), there is considerable divergence of opinion as to the appropriate method to be used for buildings. Since the present diminishing balance rate of 5 per cent finds general acceptance and is easily applied to this general type of asset, no change in method or rate is proposed.

To the extent that the rate tends to be on the high side in relation to economic depreciation for some buildings, this slight incentive is appropriate if Canada's tax allowances are to remain competitive, as indicated by the international comparison in Section IV. Any unwarranted use of the capital cost allowance deductions on buildings

is subject to the limitation which generally prevents individuals and corporations (other than real estate corporations) from creating losses by claiming capital cost allowance on rented real estate.

In the case of other types of buildings at present included in Class 6, such as frame buildings clad in brick or metal, the diminishing balance rate of 10 per cent appears to be more than adequate. However, in the absence of more data concerning the experience with precise kinds of construction, it is not possible at this point to propose changes in the classification or rate.

Machinery and Equipment

Taken by itself, the survey of financial depreciation in Canada would indicate that the general rate for machinery and equipment might be reduced from 20 per cent to 15 per cent. However, it must be borne in mind that there is a great variety of types of equipment in this category and a very wide dispersion of experience in various industries. It is also a type of asset which is most subject to unexpected obsolescence.

A general incentive to expand and modernize Canada's equipment is important for the enhancement of productivity, and as already noted in the international comparison, the general rate of 20 per cent is not overly generous in a relative sense. In fact, in the case of manufacturing equipment, it was necessary in 1972 to replace the general rate of 20 per cent with a special two-year write-off on the straight-line basis in order to maintain Canada's competitive position for investment in this type of asset. Accordingly, any reduction in this general rate would not appear to be consistent with national objectives.

Automotive Equipment

This category includes substantial variations in type of asset, ranging from automobiles to buses, trucks and trailers. Despite this diversity the present rate of 30 per cent covers the bulk of experience, and has general acceptance. The only rate change proposed is for taxicabs, as indicated below.

Power Plants, Pipelines and Certain Mining and Petroleum Assets

The economic depreciation as reflected in financial statements suggests that the capital cost allowance rates for these important categories are higher than necessary. However, it must also be noted that these assets relate to industries of critical importance to Canada for the near future, in which large amounts of capital investment will be required. Accordingly, it appears that the existing rates should be maintained to assist in carrying out national objectives. In addition, it is proposed below that an extra allowance be given to offshore drilling platforms to bring their overall rate into line with that for drilling equipment used in exploring on land.

Increases in Rates

Roads, Runways, Paved Areas

Many complaints were received in the responses to the questionnaires and in briefs to the effect that the present rate of 4 per cent on paved areas was too low. Evidence

collected by the survey substantiated these claims and indicated the need to increase the rate to 8 per cent.

Computers

As indicated by the survey, technology in the computer field continues to change quickly and the present general equipment rate of 20 per cent is inadequate. It is therefore proposed that the rate for the computer hardware and the related systems software be increased from 20 per cent to 30 per cent. In addition, it is proposed that the software programs which are developed in application of the computer be entitled to a rate of 100 per cent; at present such costs are either deducted as expenses or capitalized and written off at the rate of 20 per cent.

Offshore Drilling Platforms

There has been considerable interest recently concerning the capital cost allowances on the drilling platforms which are required in exploring for petroleum reserves offshore. Under the present regulations these are classified as vessels in class 7 with a capital cost allowance rate of 15 per cent and this basic rate appears adequate to reflect their useful life. At the same time, it is in Canada's interest to encourage offshore exploration and it does not seem appropriate that the equipment used for such purposes should carry a lower capital cost allowance than that used for exploring on land. It is therefore proposed that there be an additional allowance of 15 per cent for offshore drilling platforms so that the total combined allowance would be 30 per cent on the diminishing balance basis. It can also be noted that such platforms may be entitled to other forms of assistance which apply to vessels built and registered in Canada.

Jetty, Mole

This slight increase in rate from 4 per cent to 5 per cent is to bring it more in line with economic depreciation, and also to improve the grouping of similar assets in the class schedules.

Taxis, and Portable Equipment Used for Temporary Rentals

In general, the present CCA system categorizes assets by their type rather than by their use, and in the overall evaluation in Section V it is concluded that this general approach should be continued if the system is to remain manageable. Nevertheless, there are some unusual situations where the rate of economic depreciation is demonstrably much higher than generally experienced for the type of asset involved. For this reason, it is proposed that the rate for taxis be increased from 30 per cent to 40 per cent, and the rate for portable equipment used for temporary rentals be increased from 20 per cent to 30 per cent.

Small Tools etc., costing less than \$200

Under the present system such items costing less than \$100 are entitled to a rate of 100 per cent, mainly for practical reasons. The proposal is to raise the \$100 to \$200 in view of changes in price levels since the \$100 limit was introduced in 1961.

Decreases in Rates

Aircraft

The present rate of 40 per cent is clearly too high in view of the financial depreciation survey which indicates that a rate of 12 per cent would generally be adequate. Internationally, the useful life of commercial aircraft is generally taken to be 14 years, which would warrant a diminishing balance rate of about 11 per cent. At the same time, however, too abrupt a change in rate could be disruptive, and it must be kept in mind that this classification covers a wide variety of type, size and use of aircraft. Accordingly, it is proposed that the rate be reduced to 25 per cent.

Radio, Television, Radar and Electrical Generating Equipment

The radio or television transmission and receiving equipment, the radar equipment, and the electrical generating equipment, at present in Class 9, carry a capital cost allowance rate of 25 per cent. However, the survey does not support this rate, and it is proposed that this special class be discontinued, so that such assets would be included in Class 8 along with other general kinds of equipment which are entitled to a rate of 20 per cent.

Powered Earth-Moving Equipment

Evidence collected in the survey indicated that the experience of business regarding the use of this equipment is substantially the same as that for contractors' moveable equipment which is included in Class 10 at a rate of 30 per cent. Furthermore, a substantial proportion of these assets were depreciated at well below the 30 per cent rate. It is therefore proposed to discontinue the special class which provides a 50 per cent rate for this type of asset and to include it with other contractors' moveable equipment in Class 10.

Leased Advertising Signs

From the results of the survey it is evident that the experience of business regarding this item was basically no different than with respect to signs included in Class 8. Consequently, it is proposed to include all assets of this type in Class 8, thereby reducing the rate on leased advertising signs from 35 per cent to 20 per cent.

Changes in Rate System

As noted above, assets are generally classified under the present system by their type rather than by the industry in which they are used, and it has been concluded that this general emphasis should be continued.

As an exception to this general approach certain assets used in a railway system or in a telephone system have been grouped together and entitled to a composite rate of 6 per cent and 8 per cent respectively. Experience has demonstrated however that this composite rate approach does not adequately reflect the changing mix of assets which can occur over the years. In these industries the proportion of shorter-lived assets has tended to become more important. Accordingly, it is proposed that the present

composite rate be discontinued and that future asset acquisitions be broken into the more usual categories which apply to other industries.

In the case of the railways, the present composite rate of 6 per cent would be replaced by 4 per cent for the track system, 10 per cent for locomotives, 7 per cent for rolling stock and the usual rates for other assets such as buildings, equipment, etc. As part of this change, the rates of 10 per cent and 20 per cent which can apply at present to a tank car under Class 6 or to leased rolling stock or locomotives under Class 8, respectively, would no longer apply.

In the case of a telephone system, the present composite rate of 8 per cent would be replaced by 8 per cent for switching equipment, 5 per cent for poles and lines and the usual rates for other categories of buildings, equipment, etc. These various rates would also apply to the categories of assets in a telegraph system, which are presently within the composite railway rate of 6 per cent.

Transition

The proposed higher rates would apply to assets acquired after May 25, 1976, and to the total cost of assets completed after May 25, 1976 where construction or manufacture thereof was commenced before May 26, 1976. In the case of rate decreases, the new reduced rate would apply to assets acquired after May 25, 1976, except where there is a contractual commitment or where construction or manufacture thereof had commenced before May 26, 1976.

Overall, these rate changes will result in some net increase in tax revenues. However, since the rate changes only apply prospectively, these revenue effects will emerge gradually.

VII Limitation of Capital Cost Allowance on Leasing of Moveable Property

As explained above, the capital cost allowances for tax purposes may often be larger in early years than the depreciation recorded in financial statements and this timing difference is generally useful in providing funds for capital investment. However, the government's intention is that these faster write-offs should be directed to the taxpayers most directly carrying out the intended activity.

In some instances there are leasing arrangements under which the use of capital cost allowances is effectively traded to another taxpayer in exchange for lower financing costs. At the individual level, high marginal rate taxpayers have thus been able at an increasing rate to shelter personal income with capital cost allowances on leasing of moveable property such as equipment and aircraft. At the corporate level, there has been an extremely rapid growth in recent years of transactions which in substance are of a financial nature and yet in form are drawn up as a lease in order to give the financing corporation the benefit of deducting capital cost allowances which the person using the property cannot utilize either because of tax exemption or lack of taxable income.

While there is much leasing which is entered into for bona fide commercial reasons, nevertheless there is need for a tax rule to prevent unwarranted use of capital cost allowances. The most direct approach would be to look through the form of leases and distinguish between those which are in substance financing arrangements designed to transfer the deductibility of capital cost allowances, and those which are true leases in a more conventional sense. However, past experience and further study indicates that this approach is highly impractical, and that there is need for a more general rule of a workable nature.

It is therefore proposed that with respect to all leases of moveable property, the capital cost allowances thereon cannot be used to create a loss to shelter non-leasing income. This rule would apply to individuals and corporations. It would not affect those taxpayers such as equipment dealers or manufacturers who are allowed for tax purposes to treat moveable property held for both sale or lease as inventory.

Transitionally, the limitation would apply to moveable property acquired for leasing after May 25, 1976, except where there is an existing contractual commitment. The capital cost allowances on such property would be limited to the income from leasing of all moveable property. The revenue effects of this proposal will be minimal in the balance of the fiscal year 1976-77 since the capital cost allowances on moveable property under existing lease contracts will not be affected.

Appendix 1
Relationship of Capital Cost Allowances
to Financial Depreciation of
Surveyed Corporations

Capital Cost Allowance Class	Description	Net Book Value ⁽¹⁾ of Depreciable Assets End of 1973	Equivalent Diminishing Balance Rate, Adequate for 75% of Assets ⁽²⁾	Present Capital Cost Allowance Rate
		(\$ thousands)	(%)	(%)
1	Ground Improvements	336,493	7.5	4
2	Utilities, Pipelines	4,671,155	4.0	6
3	Buildings	5,841,533	5.5	5
4	Railway Systems	5,030,886	4.5	6
5	Pulpmills	192,265	9.7	10
6	Buildings, Tanks	1,280,345	8.2	10
7	Vessels	216,589	11.2	15
8	Machinery & Equipment	7,426,618	15.2	20
9	Radio, Electrical Generating	455,837	11.0	25
10	Automotive, Resource	4,626,292	13.3	30
11	Advertising Signs	144	20.0	35
12	Dies, Tools, Mine Haulage Ways	448,139	12.0	100
13	Leaseholds	2,353	—	—
14	Patents, Franchises	—	—	—
15	Woods Assets	—	—	—
16	Aircraft	918,823	11.6	40
17	Telephone Systems	4,605,374	10.3	8
22	Earth Moving Equipment	197,523	29.9	50
	Incentive Classes	3,488,730	n/a	n/a
	Other	57,765	n/a	n/a
Total		\$39,796,864 ⁽³⁾		

(1) Net book value is the original cost less accumulated depreciation as recorded in the financial statements.

(2) The diminishing balance rate is that which, in present value terms, would be equivalent to the financial depreciation methods of the surveyed corporations, and be adequate to cover the financial depreciation on 75 per cent of the assets of the particular class.

(3) Includes \$39,653,838 for the large corporations surveyed, and \$143,026 for the small corporations surveyed on a sample basis.

**Appendix 2
Comparison of Net Book Value and
Undepreciated Capital Cost of
Surveyed Corporations**

Capital Cost Allowance Class	Description	Net Book Value ⁽¹⁾ End of 1973	Undepreciated Capital Cost ⁽²⁾ End of 1973	Excess of Net Book Value Over Undepreciated Capital Cost ⁽²⁾ End of 1973
			(\$ thousands)	
1	Ground Improvements	349,165	420,279	(71,114)
2	Utilities, Pipelines	4,692,491	3,793,860	898,631
3	Buildings	5,977,354	5,453,295	524,059
4	Railway Systems	5,149,238	5,495,325	(346,087)
5	Pulpmills	191,345	225,207	(33,862)
6	Buildings, Tanks	1,313,348	1,108,574	204,774
7	Vessels	216,888	155,012	61,876
8	Machinery & Equipment	7,659,634	5,087,297	2,572,337
9	Radio, Electrical Generating	419,545	222,987	196,558
10	Automotive, Resource	4,681,484	3,098,806	1,582,678
11	Advertising Signs	1,281	110	1,171
12	Dies, Tools, Mine Haulage Ways	460,358	180,590	279,768
13	Leaseholds	259,781	287,616	(27,835)
14	Patents, Franchises	23,799	26,707	(2,908)
15	Woods Assets	4,627	3,597	1,030
16	Aircraft	925,694	693,444	232,250
17	Telephone Systems	4,591,285	3,704,092	887,193
22	Earth Moving Equipment	197,692	81,017	116,675
	Incentive Classes	3,968,915	2,161,364	1,807,551
	Other	572,031	273,248	298,783
Total		\$41,655,955⁽³⁾	\$32,472,427⁽³⁾	\$9,183,528⁽³⁾

(1) Net book value is the original cost less accumulated depreciation as recorded in the financial statements.

(2) Undepreciated capital cost is the balance in the class which has not yet been claimed for tax purposes.

(3) Includes the following amounts in respect of small companies surveyed on a sample basis: net book value of \$147,534 thousand, undepreciated capital cost of \$128,784 thousand, and excess of \$18,750 thousand.

Appendix 3
International Comparison of
Tax Depreciation on Buildings and Equipment
Used in Manufacturing

Country ⁽²⁾	Capital Cost Index in Manufacturing ⁽¹⁾ , By Country		
	Buildings	Equipment	All Assets ⁽³⁾
All Countries, Mean (R)	151.3	123.4	130.1
(D)	139.5	117.7	122.9
Australia	190.5	130.1	144.6
Austria (R)	175.0	129.2	140.2
(D)	122.4	108.7	112.0
Belgium (R)	136.0	118.8	122.9
(D)	128.3	114.7	118.0
CANADA	166.7	133.3	141.3
Denmark	131.8	117.4	120.8
Finland (R)	172.7	134.5	143.6
(D)	136.3	117.2	121.8
France	159.4	127.0	134.7
Germany (R)	189.6	136.9	149.5
(D)	125.7	110.6	114.2
Greece (R)	122.2	114.2	116.1
(D)	100.0	100.0	100.0
Ireland	165.4	117.4	128.9
Italy	130.6	117.5	120.6
Japan (R)	139.6	116.6	122.1
(D)	123.9	110.0	113.3
Luxembourg	151.3	116.5	124.8
Netherlands	148.2	137.9	140.4
Norway (R)	179.1	148.2	155.6
(D)	124.6	115.0	117.3
Portugal (R)	128.2	115.9	118.9
(D)	120.9	111.7	113.9
Spain	137.5	121.0	125.0
Sweden	172.8	125.2	136.7
Switzerland	133.0	116.3	120.3
Turkey	115.3	109.1	110.6
United Kingdom	126.9	109.5	113.6
United States	157.4	123.2	131.4

(1) Based on the capital cost index for selected asset types listed in the Tax Depreciation Survey (Appendix B). Buildings: median index for factories and machine shops. Equipment: mean of the median index for equipment types under each manufacturing industry (food and related, chemicals, petroleum refining, iron and steel, metal working, textiles, and pulp and paper). The base (100) stands for absence of taxation.

(2) (R) refers to index computed with tax rate on retained income; (D) refers to index computed with tax rate on distributions.

(3) Obtained from applying weights 0.24 and 0.76 to the index shown for buildings and equipment, respectively. These weights are derived from the 1968 percentage distribution of gross investment between structures and equipment in United States manufacturing, reported by Musgrave *et al.* (1971, page 451).

Source: Table 10, *International Comparison of Tax Depreciation Practices*, published by the Organization for Economic Co-operation and Development, 1975.

**Appendix 4
Survey Results for
Selected Asset Categories
and Related Budgetary Proposals**

	Net Book Value of Assets End of 1973 ⁽¹⁾	Present Capital Cost Allowance Rate	Estimated Diminishing Balance Rate Adequate for 75% of Assets ⁽²⁾	Proposed Capital Cost Allowance Rate
	(\$ millions)	(%)	(%)	(%)
<i>No Change in Rates</i>				
Buildings — Concrete, Steel	21,280	5	5.6	5
Buildings — Frame, Clad in Brick or Metal	3,450	10	7.4	10
Machinery & Equipment — General	14,490	20	13.3	20
Automotive Equipment	4,450	30	30.6	30
Plants for Producing and/or Distributing Electrical Energy, Gas, Water or Heat	3,780	6	4.5	6
Gas, Oil & Water Pipelines	2,660	6	3.4	6
Mining Assets — General	3,590	30	7.9	30
Oil & Gas Production Equipment	780	30	8.0	30
<i>Increases in Rates</i>				
Roads, Runways, Paved Areas	880	4	7.5	8
Computers				
— Hardware & Systems Software	270	20	26.0	30
— Application Software	—(3)	20	—(3)	100
Offshore Drilling Platforms	—(3)	15	—(3)	30 ⁽⁴⁾
Jetty, Mole	20	4	6.0	5
Taxis	—(3)	30	—(3)	40
Portable Equipment Used for Temporary Rentals	—(3)	20	—(3)	30
Kitchen Utensils, Medical or Dental Instruments & Tools, Costing Less than \$200	—(3)	20	—(3)	100
<i>Decreases in Rates</i>				
Aircraft	1,110	40	11.6	25
Radio, Television, Radar & Electrical Generating Equipment	680	25	11.0	20
Powered Earth-moving Equipment	480	50	29.9	30
Signs Used to Earn Rental Income	2	35	20.0	20
<i>Changes in Rate System</i>				
Railway Systems	5,930	6	4.5	Various
Telephone Systems	4,660	8	10.3	Various

(1) National totals estimated from the survey data.

(2) Based on survey data for large companies.

(3) Separate detail not available from survey data.

(4) The increase in rate from 15 per cent to 30 per cent will be provided by an additional allowance.

Budget Paper D

Charities under the Income Tax Act

Contents

- 3 Introduction
- 4 Categories of Charities
- 4 Carrying on Business
- 5 Income of Private Foundations
- 6 Distribution of Income
- 6 Disclosure
- 7 Fund-raising Costs
- 7 Registration and Deregistration
- 8 Accumulation of Income
- 9 Appendix

Budget Paper D, Charities Under the Income Tax Act, has also been published under separate cover, and copies are available to the public. Requests should be addressed to:

*Distribution Centre,
Department of Finance,
160 Elgin Street,
Ottawa, Ontario.
K1A 0G5*

This Budget Paper describes changes in the Income Tax Act dealing with the definition and operations of charities, as proposed in the federal budget of May 25, 1976.

The proposals flow from a Discussion Paper tabled with the June 23, 1975 budget, from more than 200 briefs and 30 oral representations received in response to the Discussion Paper, and from further intensive study by the government.

The Discussion Paper emphasized the need for "more information and a comprehensive expression of public views" about charitable organizations and charitable giving before legislation could be prepared. Public knowledge about these subjects has been fragmentary, largely because there has been no requirement for disclosure of the activities and financial affairs of charities.

There is no question, of course, about the great need for and importance of charitable activities in Canada. As the Discussion Paper said, charities "fill in gaps of service and financial support where government should not or cannot play a significant part". Vital support is extended by charities to education, medicine, scientific research, culture, religion and athletics. Charities serve the physically handicapped and the disadvantaged in our society. They make it possible for hundreds of thousands of volunteer workers to contribute to a higher quality of life in this country.

Taxation law supports charitable activity in important respects. Every taxpayer may claim automatically a \$100 deduction for medical expenses and charitable contributions; larger donations may be deducted from income for tax purposes if supported by receipts. Charities pay no tax on their income.

In dollar terms, more than \$1 billion of the incomes of individual Canadians is exempted from tax annually as a result of the standard deduction; a further \$500 million is claimed in itemized contributions, quite apart from corporate gifts and bequests. We have some 35,000 registered charities in Canada. About two-thirds of them are religious organizations, whose annual income from contributions and investments is reported by Statistics Canada to exceed \$700 million; the balance have estimated annual income exceeding \$400 million. Information from public sources and voluntary disclosures in the course of the government's study of charities indicate that there are at least 25 charitable foundations in Canada with assets of more than \$10 million, of which at least five have assets of more than \$100 million.

The government's study suggests that in the majority of cases, charities and charitable foundations are scrupulous in the conduct of their affairs; legislative reforms are unlikely to require any major change in their operations. But others have exploited gaps and deficiencies in income tax provisions. Tax law for charities has undergone few major changes in the last 20 years, despite sweeping growth and development in the institutions and activities to which it applies.

The proposed changes in the Income Tax Act seek to do several things:

In an important sense, revenues forgone as a result of deductions or exemptions—for whatever purposes they are provided—impose an equivalent extra tax burden on all other taxpayers. The changes in this legislation must therefore ensure as far as possible that tax-exempt monies flowing to charities

are used as intended—as efficiently as possible, and for strictly charitable purposes, not private gain.

Tax law should serve the important goal of promoting public confidence in, and support for, charitable activities. Disclosure provisions are particularly important in this respect.

The law should operate fairly as between charities and recognize the current structure of such organizations.

The amendments will take effect January 1, 1977 or as phase-in rules determine.

Categories of Charities

Charities in Canada are essentially of two kinds—active charities which provide services and carry out charitable activities; and foundations which distribute funds to be employed by others for charitable purposes. Foundations tend in turn to be of two types—those which are broadly representative, with donations received from the public at large; and those which are founded and controlled by one person or one family.

To more accurately reflect this situation and to clear up confusion in the existing terminology of the Act, new definitions were proposed by the Discussion Paper. These have been supported almost universally in briefs to the government and will be incorporated in the proposed legislative changes.

The general term in the Act will be “registered charities” (in place of “registered Canadian charitable organizations”). Within this umbrella term there will be two categories—“charitable organizations” to denote active charities (no change from the existing Act) and foundations, to be called either “private foundations” or “public foundations” (in place of “charitable corporations” and “charitable trusts” in the present Act). A public foundation will be one which meets two tests: its controlling directors or trustees deal with one another at arm’s length—a well-defined tax concept relating to the degree of association between taxpayers—and less than 75 per cent of its capital has been contributed by one person or by a group of related persons. Otherwise, a foundation will be classified as private. The Minister of National Revenue may designate a private foundation to be a public foundation and vice-versa.

Carrying on Business

The Income Tax Act at present requires all activities of charities to be devoted to charitable purposes; there is a prohibition—specific in the case of corporations and trusts, implied in the case of charitable organizations—against carrying on a “business”. In practice, the law has been administered to permit charitable organizations to operate businesses if they are directly related to their charitable activities. As the Discussion Paper said, there may be good reasons for carrying on a business. “An art gallery may have a gift store. A hospital may have a cafeteria for visitors. Certain groups sell used clothes and other items.”

It is advisable, however, to place some restriction on these activities. Obviously, such businesses may compete with commercial concerns, which of course must pay taxes. If a charity is operating a business at a loss, it may have to make up the losses with its own funds, often out of amounts for which a tax deduction has been given. Businesses may in effect become divorced from the charity for practical purposes, their revenues being reinvested rather than going to the charity. The running of the business may finally become the principal focus of the charity's activity, with its charitable work relegated to a secondary role. Some countries have been obliged to deal with these problems by legislative action.

There is little evidence that charities in Canada have sought to pursue operations in these ways. However, in view of the tax benefits charities will continue to enjoy, a standard of restraint should be set out clearly in the law both to reassure those who conform and support charitable activity and to guard against potential abuse.

The government proposes to amend the Income Tax Act to expressly permit charitable organizations and public foundations to carry on businesses provided that they are related to their charitable activities. Revenue Canada will define appropriate criteria for a related business. The law will state further that unrelated business activity is also acceptable if carried on substantially by volunteers. Again, it is emphasized that these changes will not affect the existing practices of most charitable organizations.

If these rules are breached, however, the Minister of National Revenue will have authority to deregister the charity and it will lose its tax-free status.

Income of Private Foundations

The Discussion Paper discussed a number of ways in which it is possible to take unfair advantage of provisions in the Income Tax Act permitting the establishment of private charities. For example, investments and expenses may be arranged to ensure that some charities receive relatively little income and pay out relatively small sums annually in comparison to their capital. This may be accomplished most readily by foundations holding shares and debt of private family companies. In a conflict between business and charitable aims, business policy decisions may tend to prevail. Funds of foundations may be used for business purposes.

Existing distribution rules requiring foundations to pay out 90 per cent of their annual income each year are ineffective to the extent that the level of income of the foundation may be manipulated in the first instance.

To ensure an adequate cash flow for charitable purposes from the institutions enjoying these tax advantages, the legislation adopts a distribution rule proposed in the Discussion Paper, with a number of modifications. A similar rule for private foundations has worked well in the United States for the past seven years.

In general terms, private foundations will be required to distribute the greater of 90 per cent of their annual income or 5 per cent of their capital, measured at fair market value. This "disbursement quota" will apply with a lag of one year so that directors will have time to determine the amount to be distributed and to make the distribution.

This 5 per cent rule will not apply to arm's length investments in the open market. For the purpose of this exemption, a list will identify certain acceptable or "qualified" types of investments. A proposed list is contained in the appendix to this paper.

Similarly, the 5 per cent rule will not apply to capital property used directly in the foundation's own activities or to amounts being accumulated for specific projects approved by the Minister of National Revenue. For a fuller explanation of these rules see *Accumulation of Income*. In respect of accumulated income, the 5 per cent rule will not apply either to the initial amount set aside or to the income generated on the initial amount.

Thus, a private foundation will have to pay out 90 per cent of its income other than that generated by non-qualified investments; the greater of 90 per cent of income from non-qualified investments or 5 per cent of their fair market value at the end of the previous fiscal year; nothing in respect of capital property utilized by the foundation itself in its work; and, ultimately, the full amount of income accumulated pursuant to the rules for specific projects.

The 5 per cent rule will be phased in, so that the percentage requirement for 1977 will be 3 per cent and, for 1978, 4 per cent.

Public foundations will be subject to the same rules as presently apply to them with regard to the distribution of income.

Distribution of Income

A feature of the legislation which was proposed in the Discussion Paper and endorsed by subsequent briefs to government will permit more flexible transfer of funds between charities.

Up to 50 per cent of the annual *income* of a charitable organization may be distributed to other registered charities, and where groups in Canada are essentially part of the same organization, they may be designated as "associated" and permitted to transfer 100 per cent of income within the group.

It is also proposed that a transfer of funds which are established as being *capital* of the donor will be treated as capital of the recipient. This means that the recipient need not pay out these funds in the year following receipt under the 90 per cent rule or the rule requiring all the resources to be used for charitable purposes.

A change is also being made in the definition of capital for foundations. At present, one of the ways to identify capital is to determine that the funds donated must be held in perpetuity. Under the proposed change, if funds must be held for a minimum of 10 years, they will be treated as capital.

Disclosure

The Discussion Paper stated that in view of the large tax concessions granted to registered charities, the public is entitled to know with some precision about the

activities of the charity. The proposal to require disclosure has met a very positive response from most groups and rules will be incorporated in the legislation.

They will require disclosure of:

- sources of income by broad categories, i.e., whether from government, other registered charities, individuals, corporations, investment or business income;
- amounts expended in charitable activity, again by broad categories, i.e., education, research, etc.;
- gross administrative expenses, including salaries in aggregated form;
- basic information about the name and location of the charity, its directors or trustees, and its basic function.

The information returns of registered charities will be available for public inspection at Revenue Canada, Ottawa, and in regional centres.

Fund-raising Costs

As a check on excessive fund-raising costs, the Discussion Paper called for public views on whether charities should be required to distribute or utilize some minimum percentage of their funds in direct charitable activities.

A requirement of this type was supported overwhelmingly. The legislation will require that charitable organizations and public foundations distribute or utilize not less than 80 per cent of the gross funds for which they have issued a receipt. This test would be in addition to the present general requirement that all of the net resources of the charity be devoted to charitable activity.

The rule would be phased in over five years, with the percentage requirement increasing in steps of 10 per cent from 50 per cent in 1977 to 80 per cent in 1980.

Deregistration could occur if a charity failed to meet the test on average over a five-year period. During the phase-in period, the payout requirement would be an average of the "phase-in" percentages for the years after 1976. When the system is fully operational, the full average of 80 per cent over the previous five years will be the test.

Registration and Deregistration

The legislation will require all charities to register with Revenue Canada, whether or not they wish to issue receipts, in order to obtain tax-free status. This status will be lost upon deregistration.

Deregistration of a charity will be at the discretion of the Minister of National Revenue, rather than mandatory, if the law is contravened. This is felt to be appropriate in view of the fact that many charities may lack continuity of personnel or may be operated by

volunteers rather than fulltime professional people. In these circumstances breaches may occur inadvertently. Deregistration will be subject to appeal.

Deregistration may occur:

- if a charitable organization or public foundation carries on a business which is not related to its charitable activities or if it fails to meet the limit on fund-raising costs above;

- if a charitable foundation acquires control of a corporation other than by gift or bequest, or if it incurs debts other than debts arising from current operations;

- if a public foundation fails to expend 90 per cent of its income in the preceding year on charitable activity or as a gift to another charity;

- if a private foundation similarly fails to meet its disbursement quota.

At present, deregistration has the effect only of denying a charity the right to issue receipts for tax purposes; it has not meant that the charity itself loses tax-free status for its income.

As at present, a charity will be required to devote itself exclusively to charitable purposes, and it must undertake that if it ceases activity, its funds will be transferred to another charity. The new legislation will require such a transfer to take place within one year of deregistration, or the funds will revert to the Crown. These sanctions are necessary to ensure that tax-exempt funds continue to accrue to the benefit of the organizations and activities designed to benefit from the legislation.

Accumulation of Income

As proposed in the Discussion Paper, the legislation will permit charities to accumulate funds for major projects. Projects will require prior approval of the Minister of National Revenue, but no detailed rules for accumulation will be written into the legislation. In practice, there will be flexibility in establishing annual limitations and the length of time for accumulation.

Appendix

Qualified Investments for Private Foundations

It is the government's intention to list the following investments in the legislation:

- money, including balances in a bank or trust company account;
- bonds or other debt securities of governments and government agencies;
- bonds or other debt securities of corporations whose shares are listed on prescribed Canadian stock exchanges;
- shares listed on these exchanges;
- shares of an investment corporation;
- guaranteed investment certificates of trust companies;
- mortgages where the mortgagor is at arm's-length from the foundation;
- an interest in a limited-dividend housing corporation;
- a share in the capital stock of a mutual fund corporation;
- a unit of a mutual fund trust;
- a share in the capital stock of a public corporation;
- a warrant or right listed on a prescribed Canadian stock exchange giving the right to acquire property which is a qualified investment;
- a balance in the records of a credit union;
- other investments as may be prescribed by regulation.

Budget Paper E

Supplementary

Information

Contents

- 3 Report on Compensation
- 7 Small Business Deduction
- 7 Extension of the Air Transportation Tax
- 8 The Unemployment Insurance Program
- 10 Energy Conservation
- ✕ 14 Personal Income Tax
- 19 Other Tax Changes
- 21 Major Effective Dates
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Report on Compensation Aspects of the Anti-Inflation Program

To date, compensation returns covering over three-quarters of a million employees have been received by the Anti-Inflation Board. According to preliminary data as shown in Table 1, first-year compensation increases have been at or below percentage guidelines for over 60 per cent of these employees.

Table 1
Summary of Initial Compensation Increases
and Applicable Arithmetic Guidelines for
First Guideline Year⁽¹⁾

	Total Number of Employees	First Guideline Year ⁽²⁾		
		Average Initial Percentage Increases	Average Percentage Guidelines	Average Percentage Variance from Guidelines
Workers with initial compensation increases at or below applicable Guidelines	477,000	9.2	11.2	-2.0
Workers with initial compensation increases above applicable Guide- lines	<u>300,000</u>	<u>16.9</u>	<u>10.6</u>	<u>6.3</u>
Total	<u>777,000</u>	<u>12.1</u>	<u>11.0</u>	<u>1.1</u>

(1) Does not include postal workers for whom the government made a special ruling after a 44-day strike.

(2) Wherever mentioned, all averages are weighted averages by the number of employees.

Guideline Calculation

As stated in the regulations, the percentage increase permitted under the guidelines is the arithmetic sum of: the basic protection factor (8 per cent in the first program year), plus the national productivity factor (2 per cent for each program year), plus an experience adjustment factor (-2 per cent to +2 per cent) which depends on the prior compensation experience of each group. Thus in the first guideline year, groups which had experienced little or no increase in real wages over the previous two years (or previous contract) would have a guideline of up to 12 per cent while groups which had achieved increases in real wages of 4 per cent per year or more would have a guideline of only 8 per cent.

At this time, many of the employees for whom compensation forms have been filed had contracts which had expired before October 14, 1975. Because these contracts were negotiated in 1972 or 1973 when average rates of increase were more modest, many of these workers received very small or negligible increases in their real wages during the life of those contracts. Many non-union workers were in a similar position. The average

experience adjustment factor for workers covered by compensation forms filed early in the program was expected to be positive, and to yield an arithmetic guideline above 10 per cent. As indicated in Table 1, the average guideline computed for the 777,000 employees covered by forms filed up to May 4 was 11 per cent.

It should be noted that a group of relatively low-paid workers may receive a percentage increase of more than the percentage guidelines and still be in compliance because the "\$3.50 rule" permits increases in excess of the percentage guidelines as long as the new rate does not exceed \$3.50. Similarly, a group of relatively well-paid workers may receive an increase of less than the percentage guidelines and not be in compliance because the "\$2,400 rule" limits increases to a maximum \$2,400 per annum. About 7 per cent of employees will be affected by one or the other of these rules.

Increases Requested in Relation to Guidelines

About two-thirds of employees covered by compensation forms filed with the Board up to May 4 have received increases equal to or less than the arithmetic guidelines. As shown in Table 1, slightly over 60 per cent of employees are in compliance with the percentage guidelines and the Board estimates that another 4 per cent will be in compliance after the application of the "\$2,400 and \$3.50 rules".

The average compensation increase requested for the 777,000 employees for whom forms were submitted is 12.1 per cent, i.e. 1.1 percentage points above the arithmetic guidelines.

As indicated in Table 2, the degree of voluntary compliance with the percentage guidelines is high and does not vary greatly with group size. The requests of the larger groups do exceed the percentage guidelines by slightly more than do the requests of the smaller groups, but these differences are small.

Table 2
Initial Increase and Applicable Guidelines
For First Guideline Year, by Group Size⁽¹⁾

Size of Group	Total Number of Employees	First Guideline Year ⁽²⁾		
		Average Percentage Amounts Requested	Average Percentage Guidelines	Average Percentage Variance from Guidelines
5000 or more	265,000	12.5	10.9	1.6
2500-4999	103,000	12.7	11.5	1.2
500-2499	172,000	11.1	10.8	0.4
200-499	105,000	13.0	10.7	2.3
Less than 200	132,000	11.3	10.8	0.5
Total	777,000	12.1	11.0	1.1

(1) Does not include postal workers.

(2) Not all employee groupings in one size group are above guidelines — the percentages are average percentages.

Table 3
Initial Increases and Applicable Guideline for
First Guideline Year, by Industrial Sector⁽¹⁾

	Total Number of Employees	First Guideline Year		
		Average Percentage Amounts Requested	Average Percentage Guidelines	Average Percentage Variance From Guidelines
Mining	26,000	13.0	10.0	3.0
Manufacturing	158,000	11.1	10.6	0.5
Construction	7,000	10.2	10.5	-0.3
Transportation & Communication .	51,000	10.3	9.9	0.4
Trade	79,000	10.8	11.5	-0.7
Finance, Insurance & Real Estate .	157,000	12.0	10.4	1.6
Service (excluding teachers)	122,000	11.8	11.5	0.3
Teachers	30,000	24.2	11.6	12.6
Public Admin.	111,000	12.4	11.9	0.5
Incomplete Returns	36,000	—	—	—
Total	777,000	12.1	11.0	1.1

(1) Does not include postal workers.

An examination of the preliminary data indicates that a high degree of voluntary compliance with the percentage guidelines is being received from employees in almost all industrial sectors. From Table 3 it is clear that only in the education sector have requests exceeded guidelines by a large amount. This reflects a rather special situation. Most employees in this sector are Ontario secondary school teachers who had not signed a contract for the 1975-76 school year prior to October 14, 1975. They had negotiated agreements which gave them increases similar to the 25 per cent to 35 per cent increases achieved by the two-thirds of Ontario teachers who had signed contracts before the commencement of the controls program and hence were not subject to scrutiny by the Board.

Board Decisions

Only cases where the requested increase exceeds the arithmetic guidelines come to the Board for a ruling. The Board may approve increases in excess of arithmetic guidelines for the following reasons:

- to deal with compensation plans entered into or established on or before January 1, 1974, which expired prior to and were not renewed on October 14, 1975;
- to recognize direct and well-established historical relationships;

to recognize excluded payments arising from exceptional circumstances, such as labour shortages, correction of sex differentials, elimination of restrictive work practices, etc. These are described in schedule 3 of the regulations.

Of the 300,000 employees with initial increases in excess of guidelines, by May 6 the Board had ruled on 457 cases covering nearly 150,000 employees. In these latter cases, the average arithmetic guideline was 10.4 per cent, and the average of increases in the signed agreements or plans was 17.2 per cent. In 65 of the cases, the Board ruled that no increase above the arithmetic guideline was justified. The Board granted increases above arithmetic guidelines in the remaining 392 cases to restore, in whole or in part, historic wage relationships.

For all 457 cases, the average increase approved by the Board was 14.4 per cent, that is 4 percentage points above arithmetic guidelines.

Table 4
Board Decisions
To May 6, 1976⁽¹⁾

	Number of Cases	Total Number of Employees	First Guideline Year		Average Arithmetic Guideline
			Initial	Approved	
Public Sector					
Ontario Teachers	62	30,120	24.2	18.7	11.6
Non-Teachers	93	22,208	16.1	13.2	11.4
Total Public Sector	155	52,328	20.7	16.5	11.6
Private Sector	302	96,083	15.3	13.2	9.8
Total	457	148,411	17.2	14.4	10.4

(1) These are cases above guidelines assented to by Board on the basis of established rules. Postal workers are excluded.

Small Business Deduction

Since 1949, there has been a reduced rate of federal tax for small business in Canada. Until 1972, all companies, regardless of size or ownership, benefitted from this low rate. However, since tax reform in 1972, only Canadian-controlled private corporations have benefitted from the low rate and only to the extent that earnings have not exceeded an annual and cumulative limit. Once the earnings of these Canadian-controlled private companies exceed these limits, they are taxed at the normal corporate rates.

Initially, the low rate of 25 per cent applied to the first \$50,000 of taxable income each year, and a corporation could claim that rate until its earnings accumulated after 1971 exceeded \$400,000. Those limits were raised to \$100,000 and \$500,000 respectively for the 1974 and subsequent taxation years.

This budget proposes a further increase in these limits, effective for the 1976 and subsequent taxation years:

The annual amount subject to the low rate will be increased to \$150,000 from \$100,000.

The cumulative limit will be increased to \$750,000 from \$500,000.

This low rate compares with the general corporate rate of 40 per cent for manufacturing and processing profits and 46 per cent for profits from other activities. The low rate is further reduced to 20 per cent for manufacturing and processing profits which also qualify for the small business deduction. The extension of these limits will encourage the growth of many smaller and medium sized Canadian businesses by improving their cash flow.

Extension of the Air Transportation Tax

The existing air transportation tax will be extended to include air transportation purchased outside Canada by a person using Canadian airports.

Since its imposition in December, 1975, the air transportation tax has applied only to air transportation purchased in Canada. It has excluded air transportation purchased outside Canada by a person using Canadian airports. As a result, an estimated 2,300,000 air travellers or 44 per cent of international air travellers using Canadian airports do not pay the tax. Extension of the tax will mean that all air travellers contribute to the funding of the Canadian facilities they use. The United States levies a similar tax on transportation purchased outside the country for air travel from the U.S.

The extension will not affect tickets purchased in Canada which are already subject to the tax. Nor would it apply to transportation purchased outside Canada for one-way travel from a point outside Canada to a point in Canada, or to air travellers who stop in Canada solely because of routing or connecting considerations.

The extension of tax will be implemented after consultation with air carriers on its application.

The new coverage will be based on rates which will not exceed existing rates of tax.

The Unemployment Insurance Program

Further work on the review of the Unemployment Insurance Act initiated by the government in 1973 has resulted in proposals for a number of changes in the benefit structure and in administration of the program.

Changes in benefits:

The length of insured employment required to qualify for benefits will be increased to 12 weeks from eight weeks;

Weeks during which benefits may be drawn will be related more directly to weeks worked, and regional benefits will be related more closely to regional unemployment (see the comparison below);

Severance pay will no longer affect an individual's eligibility for unemployment insurance benefits.

The Act will also be amended to permit the payment of unemployment insurance to beneficiaries on a discretionary basis, where they take part in such activities as selective employment, training or short-time work programs.

The Unemployment Insurance Commission will be reunited with the Department of Manpower and Immigration to provide a common administrative structure for the government's employment and unemployment insurance services.

Existing Benefit Structure

Initial benefit phase

<u>Weeks of insurable employment</u>	<u>Benefit weeks</u>
8-15	8
16	9
17	10
18	11
19	12
20 and over	15

Re-established benefit phase

All claimants are automatically eligible for 10 additional weeks of benefits.

Labour force extended benefit phase

Claimants with attachment to labour force of 20 or more weeks are eligible for up to 18 additional weeks of benefits on the basis of two weeks plus one week of benefits for every two weeks of insured employment.

Nationally extended benefit phase

All claimants are eligible for four additional weeks of benefits if national unemployment rate is between 4.1% and 5.0%, and eight additional weeks if the national rate is 5.1% and above.

Regional extended benefit phase

Unemployment above 4.0% in a region as defined by the Commission may qualify claimants for additional weeks of benefits, depending on the differential between regional and national rates.

<u>Differential</u>	<u>Benefit weeks</u>
1.1 to 2.0	6
2.1 to 3.0	12
over 3.1	18

Overall constraint

Maximum of 51 weeks of benefits.

New Benefit Structure

*Initial benefit phase**One-for-one rule*

Twelve insured weeks required to qualify for UI benefits. One benefit week then paid for each insured week to a maximum of 25 weeks.

<u>Insured weeks</u>	<u>Benefit weeks</u>
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25 and over	25

*Labour force extended benefit phase**One-for-two rule*

Entitlement based on one benefit week for every two insured weeks over 25 insured weeks to maximum of 13 benefit weeks.

Regional extended benefit phase

Duration of benefits calculated on the basis of an entitlement of two weeks for each .05% increment to the regional unemployment rate when the regional rate is over 4.0%, to a maximum of 20 benefit weeks.

<u>Regional unemployment rate</u>	<u>Benefit weeks</u>
4 and under	0
4.1 – 4.5	2
4.6 – 5.0	4
5.1 – 5.5	6
5.6 – 6.0	8
6.1 – 6.5	10
6.6 – 7.0	12
7.1 – 7.5	14
7.6 – 8.0	16
8.1 – 8.5	18
8.6 and over	20

Overall constraint

Maximum of 50 weeks of benefits.

Energy Conservation

Both incentives and deterrents are proposed by the budget speech to encourage energy conservation. The incentives extend favourable tax treatment to the purchase of energy-conserving equipment of various kinds and remove sales taxes from certain equipment used in developing renewable forms of energy. The deterrents are excise tax measures affecting heavier automobiles and automobile air conditioners.

New Sales and Excise Tax Exemptions

The federal sales tax will be eliminated on a range of equipment, systems and devices designed to conserve energy or to develop renewable forms of energy.

The major items:

- Energy recovery units, including air-to-air heat recovery units which capture and recycle heat contained in exhaust air and devices for extracting heat from waste water.

- Self-timing devices for heating systems. It is estimated that the space heating of commercial and residential buildings accounts for 30 per cent of total consumption of petroleum products. Timer-controlled thermostats for heating systems could result in energy savings of between 10 and 15 per cent.

- Certain thermal insulations for pipes and ducts.

- Solar cells which produce electricity directly from the sun for charging batteries.

- Solar furnaces, panels and tubes which collect and convert solar energy into heat for use in solar heating systems.

- Wind-powered systems for generating mechanical or electrical energy.

A Fast Write-Off for Energy-Efficient Equipment

Most industrial equipment used in a manufacturing or processing business is already eligible to be depreciated over a short two-year period.

The budget proposes to extend this special treatment to some other important types of industrial equipment which will consume less energy. For example, substantial energy savings could be achieved in the pulp and paper industry where approximately a third of Canada's industrial consumption of fuel oil takes place.

The incentive will permit a corporation to deduct the cost of an eligible asset from its profits for tax purposes over two years instead of over the much longer period now required. The higher capital cost allowance will assist in providing the additional cash flow necessary to make it financially possible for companies to install equipment with higher energy efficiencies.

A special 50 per cent depreciation class will be created for equipment, acquired after May 25, 1976 and before 1980 and used for the generation of electricity or the production or distribution of heat, providing this equipment meets certain criteria

relating to more efficient use of fuels or the utilization of waste materials such as wood and municipal wastes. Eligible property will be certified by the Minister of Industry, Trade and Commerce.

A New Tax on Automobile Air Conditioners

A specific excise tax of \$100 will be imposed at the point of manufacture on air conditioners for cars, station wagons, vans and smaller trucks.

Air conditioners affect gasoline consumption both by adding to the weight of the vehicle and by consuming energy directly. It is estimated that an air conditioner increases gasoline consumption by 2 to 5 miles per gallon (10 to 20 per cent) when weight and operation are taken together.

A Higher Weight Tax on Cars

Given existing technology, the most important method of increasing automobile mileage per gallon of gas consumed is by means of weight reduction. Accordingly, since November, 1974, a special excise tax has been imposed to act as a deterrent to the use of heavier cars.

Cars above a threshold level of 4,500 pounds and station wagons above 5,100 pounds have been subject to an escalating tax of \$20 for the first 100 pounds, \$25 for the second 100 pounds and \$30 for each subsequent 100 pounds.

The budget proposes:

To reduce the threshold levels by 1,000 pounds for cars and by 1,400 pounds for station wagons over a four-year period. The first reduction—250 pounds for cars and 350 pounds for station wagons—is effective as of August 1, 1976.

To increase the amounts of tax above threshold levels to \$30 for the first 100 pounds, \$40 for the second 100 pounds, \$50 for the third 100 pounds, and \$60 for each subsequent 100 pounds.

The 1979 target for full imposition of the higher tax dovetails with the timetable for introduction of miles-per-gallon standards for new cars already announced by Energy Minister Gillespie. Both steps recognize the time required by the auto industry to adapt production toward smaller cars.

Structure of Excise Tax on Heavy Cars

	Current Structure	Proposed Structure			
		1976	1977	1978	1979
<i>Weight Threshold</i>		(Pounds)			
Automobiles	4500	4250	4000	3750	3500
Station Wagons	5100	4750	4400	4050	3700
<i>Tax Rate⁽¹⁾</i>		1976 and after			
		(Dollars)			
First Excess 100 lbs.	20		30		
Second Excess 100 lbs.	25		40		
Third Excess 100 lbs.	30		50		
Fourth and Each Succeeding 100 lbs.	30		60		

(1) Tax applies to each excess 100 lbs. or part thereof.

Tax During the Phase-In Period

Weight (lbs)	Current Structure	Proposed Structure			
		1976	1977	1978	1979
		(Dollars)			
3500	—	—	—	—	—
3750	—	—	—	—	120
4000	—	—	—	120	240
4250	—	—	120	240	420
4500	—	120	240	420	540
4750	75	240	420	540	720
5000	135	420	540	720	840
5250	225	540	720	840	1020

Note: For station wagons, the threshold levels are higher than above, and the tax liabilities less for the same weights. The taxes above refer to automobiles purchased in the 12-month period commencing August 1 of the indicated year.

Tax on Typical Automobiles

Group	Range of Tax Payable				
	Current Structure	Proposed Structure			
		1976	1977	1978	1979
Sub-Compacts					
Audi Fox					
Chevrolet Chevette					
Datsun 710					
Ford Pinto					
Renault 12					
Volkswagen Dasher					
Toyota Corona					
No tax					
Compacts					
AMC Pacer					
Chevrolet Nova					
Dodge Dart					
Ford Granada					
Peugeot 504					
Volvo 244					
No tax					
Mid-size					
AMC Matador					
Buick Century					
Chevrolet Chevelle	No tax	No tax	\$30-\$70	\$30-\$180	\$70-\$360
Chrysler Cordoba					
Ford Torino					
Full Size					
Buick Electra					
Chrysler Newport					
Dodge Monaco	\$20-\$45	\$30-\$240	\$120-\$360	\$240-\$540	\$420-\$660
Ford LTD					
Luxury					
Cadillac Eldorado					
Lincoln Continental	\$105-\$195	\$180-\$540	\$360-\$720	\$480-\$840	\$660-\$1020

Individual models are selected to illustrate the types of automobiles in each group. Cars are listed alphabetically in each group, not by weight. The tax ranges are intended for illustrative purposes only and are based on estimates of the current weights of automobiles in each classification. The tax on individual automobiles will depend on the model, options and equipment selected, and may in some cases lie outside of the ranges indicated in the table. The ranges do not apply to station wagons.

The ranges of tax refer to automobiles purchased in the 12-month period commencing August 1 of the indicated year.

Personal Income Tax

Child Care Expenses

All deductions under the Income Tax Act for child care expenses will be doubled.

The annual limit per child will be increased to \$1,000 from \$500, the limit per family to \$4,000 from \$2,000, and the maximum weekly amount per child to \$30 from \$15. The deductions continue to be subject to a general limitation of two-thirds of the taxpayer's earned income.

The child care allowance was introduced as part of the tax reform program in 1972 to recognize increasing costs of child care, the hardships facing many one-parent families, and the evident desire of many women to re-enter the labour force.

The Act will also be amended so that for periods during which a taxpayer receives adult training allowances, or is engaged in research work funded by grants, he or she may deduct child care expenses.

Simplifying the Income Tax Return

The tax return will be simplified by using a single mechanism to record each of five possible transfers of deductions which may be made between husband and wife to their advantage.

The items involved are:

The interest and dividend deduction, maximum \$1,000.

The pension deduction, maximum \$1,000.

The age exemption, \$1,174 in 1975 and indexed.

The disability deduction, \$1,174 in 1975 and indexed.

The student living allowance, \$50 a month.

The amounts available for personal exemptions after indexing will be rounded to the nearest \$10 to make the calculation of tax easier.

Expense Deductions of "Deemed Residents"

Canadians serving abroad in the armed forces, in aid programs and at diplomatic posts are treated as residents of Canada for tax purposes. Effectively, however, they have not been permitted deductions for child care expenses, tuition fees and moving expenses because these amounts were not spent in Canada. It is proposed to allow such deductions as if the expenses were incurred in this country.

Deferred-income Plans

The budget proposes a substantial increase in the deductible amounts which may be contributed annually to retirement plans. At the same time, changes are proposed to deal with contributions which exceed the limits.

Deduction Limits

The new maximums, effective for the 1976 taxation year, will restore the real value of the limits set for contributions with the introduction of tax reform in 1972.

Plan	Annual Limit Pre-1972	Tax Reform	May 25 Budget Proposal	
Registered Pension Plan	Employer	\$1,500	\$2,500	\$3,500
	Employee	\$1,500	\$2,500	\$3,500
	Total	\$3,000	\$5,000	\$7,000
Registered Retirement Savings Plans . .		\$2,500	\$4,000 ⁽¹⁾	\$5,500 ⁽¹⁾
Deferred Profit-Sharing Plan	Employer	\$1,500	\$2,500	\$3,500

(1) If a taxpayer is a member of an employee pension plan, the maximum contribution in 1975 would have been \$2,500 and in 1976 and subsequent years will be \$3,500.

(2) Employees get no deduction for contributions made to deferred profit sharing plans.

These changes are of potential benefit to 300,000 taxpayers affected by the existing contribution limits to registered retirement savings plans (RRSPs) and registered pension plans (RPPs).

Overcontributions

Registered Retirement Savings Plans

At present a taxpayer is not penalized if he contributes more than the maximum deductible amount in the year, as long as the overcontribution remains in his plan. Furthermore, the earnings the overcontributions generate are not taxed while they are in the plan.

If the taxpayer withdraws the funds they are taxable. However, the disadvantage of paying tax on the amount for which no deduction was taken is often far outweighed by the value of the tax deferral on the earnings over a period of years. This has resulted in some taxpayers deliberately making large overcontributions to their RRSPs. On the other hand, some taxpayers may make accidental overcontributions in a year. These people usually wish to withdraw the overcontribution but cannot do so at present without winding up their plans.

The budget proposes rules to deal with both innocent and deliberate overcontributions to an RRSP. A taxpayer who contributes more than the maximum allowable amount

but less than \$5,500 will be permitted up to two years to withdraw the overcontribution from his plan without tax consequences. However, he will retain his existing option of leaving all or part of that overcontribution in his RRSP. When he withdraws funds from his plan under these circumstances they will, of course, be subject to tax.

In the case of a contribution of more than \$5,500 in a year, the excess over \$5,500 will be regarded as deliberate since this is the maximum possible annual limit and will be subject to a tax of 1 per cent per month while it remains in the RRSP. This tax will be paid by the beneficiary of the plan. If a taxpayer withdraws the excess it will, of course, be subject to tax as at present.

Deferred Profit-sharing Plans

The budget introduces new rules for contributions under a deferred profit-sharing plan. At present, a beneficiary may contribute any amount to a plan. While he may not claim a deduction for his contribution, he does not have to include the contribution in his income if he withdraws it from the plan. Because the earnings on contributions accumulate tax-free while they remain in a plan, some taxpayers have been making large contributions which, in effect, have become tax-sheltered savings. This was not the original intent of the plans and a limit of \$5,500 will be introduced for employee contributions to deferred profit-sharing plans. This limit has been chosen because it is equivalent to the limit of contributions which may be made to a registered retirement savings plan. However, the beneficiary under a deferred profit-sharing plan still will not be allowed to deduct his contribution.

Overcontributions will be subject to a tax of 1 per cent per month, payable by the plan.

Disability Deduction

A blind or disabled taxpayer is entitled to a deduction of \$1,000 (indexed) from his income. The deduction is of limited value, however, in the case of a disabled child with little or no income because it can be applied only to reduce the child's income for tax purposes. It is proposed to amend the law to permit the deduction with respect to a dependent child to be transferred to the supporting individual—whether the individual is a parent, grandparent or a taxpayer claiming the equivalent of the married exemption for the child.

Registered Home Ownership Savings Plan Transfer

The government proposes an important change for taxpayers taking advantage of the provision for tax-deductible savings under a registered home ownership savings plan (RHOSP). The amendment will permit the taxpayer to transfer his savings from one plan to another, for example, to improve his rate of return or if he moves to a new community not served by the carrier of his plan.

Student Living Allowance

The Income Tax Act will be amended to limit the right of a taxpayer to claim the student expense deduction of \$50 a month for a brother or sister studying abroad to situations where the student previously has been a resident of Canada. However, this limitation will not apply in the case of a wife, husband, child or grandchild who is a student outside the country.

Because the \$50-a-month deduction is intended only for post-secondary studies, a further amendment will specifically rule out claims made with respect to a high school program undertaken at a university or other post-secondary institution.

Finally, the law will in future require that a certificate of enrolment from the institution be submitted with the claim for the deduction.

Moving Expenses

The Income Tax Act permits a taxpayer who is moving more than 25 miles to a new job to claim moving expenses as a deduction. It was never intended that costs such as legal fees incurred in the purchase of a home in the new location should be deductible under this provision. The law requires an amendment to clarify this policy.

Annuity Purchases at 71

A taxpayer with a registered retirement savings plan is required upon reaching age 71 to pay tax on amounts in the plan or to place these amounts into an annuity for life, the annual payments from which are taxable.

An anomaly in the Income Tax Act now permits a taxpayer to escape these requirements by "amending" his plan. In addition, if a plan is amended, the various rules which place limitations on investments by the plan become inoperative.

A change in the Act will ensure that its provisions operate as intended. In the future, the amendment of a plan will result in the beneficiary paying tax on the fair market value of all the assets of the plan at the time of amendment.

Qualified Investments

The Income Tax Act imposes rules on the kinds of assets which may be held by deferred-income plans—such as registered retirement savings plans, deferred profit-sharing plans and registered home ownership savings plans.

Debt securities of companies are now accepted as qualified investments for deferred-income plans only if the company is listed on a Canadian stock exchange. Regulations will be amended to recognize as qualified investments bonds, debentures,

notes and similar obligations of Canadian corporations where the following conditions are met:

the payment of principal and interest is guaranteed by a corporation the shares of which are listed on a prescribed stock exchange in Canada;

the issuer is controlled directly or indirectly by one or more corporations the shares of which are listed on a prescribed stock exchange in Canada; or

the debt is not otherwise qualified and, at the time of their acquisition by a plan, the issuing corporation

(1) has issued and outstanding capital stock carried in the books of the corporation at not less than \$25,000,000, or

(2) is a corporation controlled by a corporation described in (1)

and has issued and outstanding bonds, debentures, notes or similar obligations of at least \$10,000,000 which debt is held by at least 300 different persons and was issued by means of an offering under which a prospectus, registration statement or similar document has been filed with, and where required by law, accepted for filing by, a public authority in Canada pursuant to and in accordance with the law of Canada or any province and there has been a lawful distribution to the public of that debt in accordance with that document.

Appropriate limitations will be imposed for deferred profit-sharing plans in conformity with the requirements of paragraph 147(2)(c) of the Act.

This change will be effective as of January 1, 1976.

Other Tax Changes

Canadian Films and Videotape

In 1974, the government introduced an incentive to invest in Canadian feature-length films by allowing the cost of such films to be written off in one year. This is viewed as an important element in the building of a strong Canadian film industry. In an effort to strengthen this incentive, this budget proposes to extend the 100 per cent write-off to short Canadian films of a length less than 75 minutes.

Although the commercial life of specific films can vary greatly depending upon their intended market and public appeal, it is felt that the present 60 per cent capital cost allowance rate, which assumes a useful life of approximately 2½ years, is unduly generous. Therefore, this budget proposes to reduce the basic capital cost allowance rate for films to 30 per cent, which will more accurately reflect the average useful life of films.

The distinction between productions on film and those on videotape has become less and less significant in recent years. As a result of recent interpretations of the law, it is now possible to depreciate the entire capital cost of productions on videotape at 100 per cent whereas those on film, other than certified Canadian films, can be depreciated at only 60 per cent under the present rules. This difference in treatment was never intended and this budget clarifies that the entire cost of productions which are capital assets will enjoy the same capital cost allowance rate whether they are shot on film or videotape. This rate will, of course, be increased to 100 per cent where the Secretary of State certifies the film or videotape as a Canadian production; otherwise the rate will be 30 per cent.

All these changes apply to films or videotapes acquired after May 25, 1976.

Branch Tax

The additional tax levied on the Canadian branch of a non-resident corporation is at a general rate of 25 per cent commencing in 1976. (This "branch tax" is in lieu of the non-resident withholding tax which would apply to dividends if the branch were incorporated.)

An amendment will limit the rate of branch tax payable by a corporation resident in a country with which Canada has an income tax treaty to the maximum rate payable on dividends under the treaty, which is normally 15 per cent.

Foreign Tax Credit

Certain Canadian residents who live near the U.S. border and work in the United States will benefit from an amendment in the method of calculating their credit for foreign taxes. Under the present computation of the foreign tax credit, the benefit of the Canadian interest and dividend deduction of \$1,000 can be largely lost. The

amendment will ensure that this inappropriate result will not occur in 1976 and subsequent taxation years.

Replacement of Herds

Farmers whose cattle contract one of several contagious diseases such as brucellosis or blue-tongue disease can be ordered to destroy some or all of their livestock pursuant to legislation such as the federal Animal Contagious Diseases Act. These farmers may also be prohibited from housing other animals in the same premises for several months. As most farmers report their income on a cash basis, there could be substantial tax paid by a farmer who is reimbursed for the destruction of his entire herd in one year but is unable to acquire a replacement herd in the same year. The budget proposes to allow such farmers to defer taxation on these payments to the year following the year of destruction to permit adequate time to replace their herds.

Major Effective Dates of Budget Announcements

1976 taxation year:

Limits raised 50 per cent on amount of profits subject to low rate of tax for small business.

Maximum deductions for child care doubled.

Deduction for disabled taxpayer made transferable.

Maximum annual deductions under deferred-income plans increased about 40 per cent.

Various technical changes in the Income Tax Act.

Budget night:

Temporary tariff cuts on \$1.5 billion of imports extended to June 30, 1977.

Changes in capital cost allowance rates; limit on capital cost allowance deductions for equipment acquired and leased after budget night.

Federal sales tax removed from energy-savings items.

Two-year write-off for energy-efficient equipment.

Special excise tax of \$100 on air conditioners for automobiles, station wagons, vans and smaller trucks.

Various technical changes in the Income Tax Act.

Aug. 1, 1976: First-stage increases in special excise tax on heavier motor vehicles.

1977 taxation year: Changes in tax treatment of charities.

Full-Year Impact of Tax Measures on Federal Budgetary Revenue

Revenue Reductions

The doubling of limits on the child care expense deduction will reduce revenues by \$15 million.

The increase in contribution limits on deferred-income plans will reduce revenues by \$60 million.

The increase in income subject to the low rate of tax for Canadian-controlled private corporations will reduce revenues by \$30 million.

The removal of the federal sales tax from energy-conserving equipment will reduce revenues by \$8 million.

The extension and broadening of the temporary tariff reductions will reduce revenues by \$40 million.

Revenue Increases

The increase in the tax on high energy-consuming vehicles will increase revenues by \$35 million.

The new tax on automobile air conditioners will increase revenues by \$7 million.

The extension of the air transportation tax will increase revenues by \$15 million.