

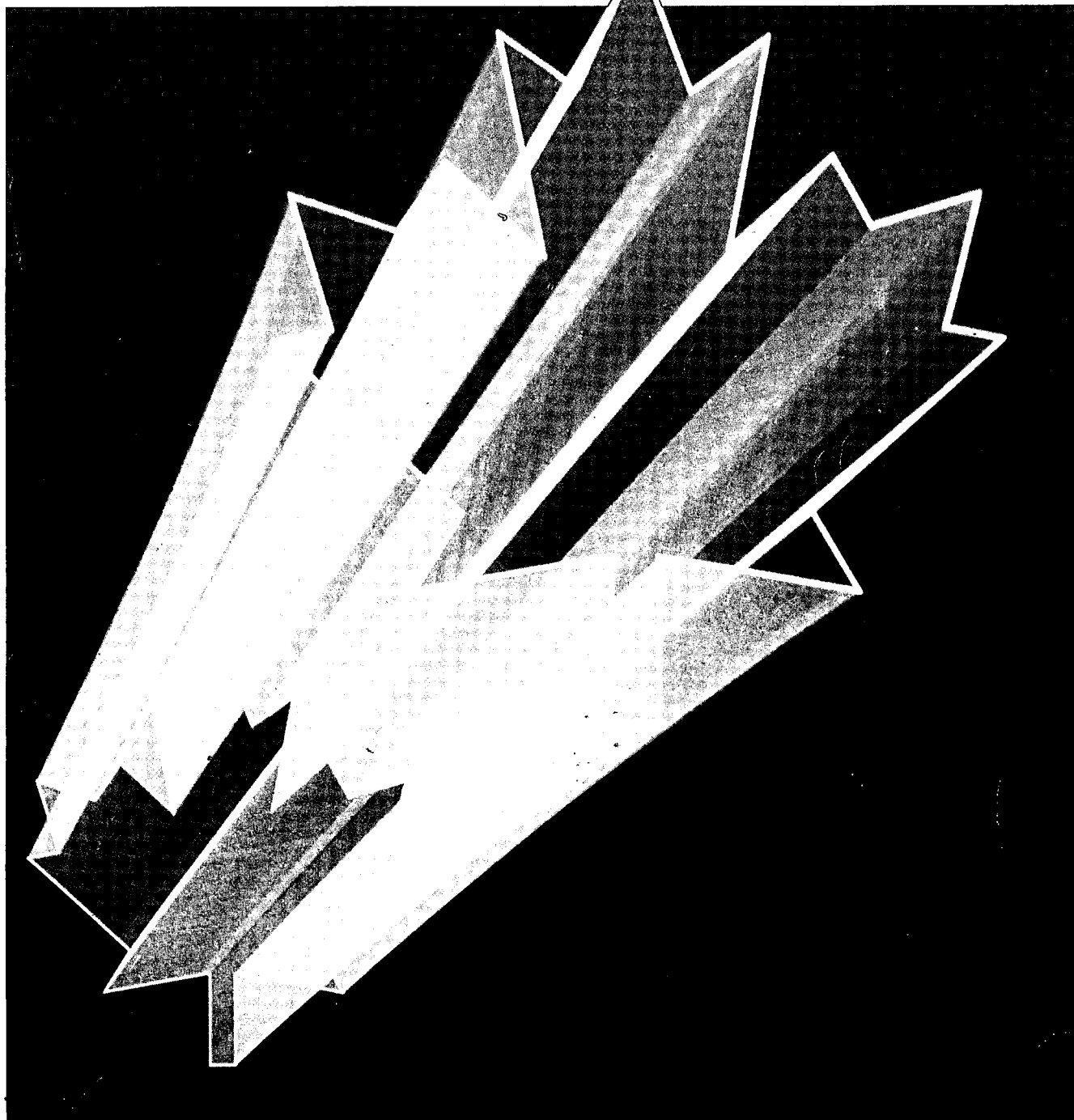
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1985

ring Economic Renewal

# Budget Papers

Tabled in the House of Commons  
by the Honourable Michael H. Wilson  
Minister of Finance

May 23, 1985



Canada

HJ13  
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1985

# Securing Economic Renewal

# Budget Papers

**Supplementary Information and  
Notices of Ways and Means Motions  
on the Budget**

**Tabled in the House of Commons  
by the Honourable Michael H. Wilson  
Minister of Finance  
May 23, 1985**



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## Supplementary Information

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# **I. Encouraging Private Initiative**

## **A. Taxation Measures**

### **1. Personal Income Tax**

#### **a) Capital Gains Tax Exemption**

The budget proposes a major initiative to encourage risk-taking and investment in small and large businesses and to assist farmers by providing a cumulative tax exemption for capital gains up to a lifetime limit of \$500,000. This change will support equity investment and broaden participation by individuals in equity markets. In addition, it will improve the balance sheets and financial health of Canadian companies. It will provide a tax environment that is more conducive to high technology companies raising capital. It will encourage individual Canadians to start new businesses and will help small businesses grow. The number of individuals benefiting from the exemption will depend on the response of individual Canadians.

The exemption will apply to gains realized after 1984 by individuals. Since only 50 per cent of capital gains are now included in income for tax purposes, the lifetime exemption will effectively remove the tax on \$250,000 of taxable capital gains. The existing unlimited exemption on sales of personal residences will not reduce an individual's entitlement to the new lifetime capital gains exemption.

The exemption will generally apply to all capital property of individuals. For 1985 a gain realized at any time in the year will qualify. The exemption will not apply to stock dividends or to employee stock options. This exemption will be phased in over six years starting immediately. The phase-in has a two-fold purpose. It reduces the immediate cost of the proposal and the benefit for those properties on which a gain has accrued over previous years, and thus it avoids the need for taxpayers to value their property on budget day. The exemption will have a cumulative limit of \$10,000 of taxable capital gains in 1985, rising to \$25,000 of taxable capital gains in 1986, \$50,000 in 1987, \$100,000 in 1988, \$150,000 in 1989 and \$250,000 in 1990 and subsequent taxation years.

For example, as a result of the budget where an individual's taxable capital gains less any allowable capital losses (his net taxable capital gain) is \$10,000 or less during 1985, he will not be subject to tax on the net amount. Where his or her net taxable capital gain in 1985 is greater than \$10,000, the first \$10,000 will be tax-exempt.

Consistent with the new system, starting in 1985, ordinary capital losses that are realized will no longer be deductible against up to \$2,000 of other income in a



year. The exemption will generally be applied on lifetime gains net of losses, but in some cases losses realized in a year will continue to be deductible against other income. For example, to continue special assistance for risky investments in small business, one-half of losses on investments in shares or debt of small business corporations will remain deductible as an allowable business investment loss against a taxpayer's other income in the year of loss. However, the amount that can be deducted in this manner must be reduced by the taxpayer's total capital gains exemption claimed previously. In addition, if an allowable business investment loss is deducted from other income, an equal amount of taxable capital gains must be realized in subsequent years before the exemption could apply.

For net taxable capital gains on the sale of qualifying farm property, the full \$250,000 exemption will be available immediately. Such property includes farm land and farm buildings held by an individual under circumstances where the individual, his spouse or child uses the property in a farming business in Canada. In addition, shares of a farm corporation or an interest in a farming partnership will qualify provided the individual, his spouse or child is actively engaged in the farming business carried on by the corporation or partnership.

As a result of the measure a number of other tax changes are proposed including:

- repeal of the indexed security investment plan (ISIP),
- replacement of the current special registered retirement savings plan (RRSP) provision for farm capital gains by the capital gains exemption,
- replacement of the limited intergenerational deferral on gains on small business shares by the capital gains exemption, and
- changes to the anti-avoidance rules that prevent conversion of dividend income into capital gains.

Further technical details on the operation of the measure and the consequential changes are provided in the material that follows.

## **Further Technical Detail on the Proposal and Consequential Changes**

### **Basic Structure of the Exemption**

The major features of the exemption are as follows:

- It is available in respect of taxable capital gains net of allowable capital losses for a year and any net capital loss carry-overs claimed in the year. Consistent with the phase-in, taxable capital gains from previous years included in income under the capital gains reserve mechanism will not qualify for the exemption.
- An individual's net taxable capital gains that are eligible for the exemption will be reduced by certain capital losses previously claimed against other income, specifically:

- pre-1985 net capital losses deducted from other income in the 1985 and subsequent taxation years;
- allowable business investment losses on shares or debt of small business corporations realized after 1984;
- post-1984 net capital losses deducted from other income in the year preceding death.
- Individuals will be required to maintain an account of their exempt net taxable capital gains in order to be able to compute their exemptions; to this end, all individuals with capital gains or losses in a year will be required to file income tax returns whether or not tax is payable for the year.
- Because of the different exempt levels during the 1985-1990 phase-in period, the exemption is to be determined by adding two elements: the exemption for the disposition of qualifying farm property in the year, which may be up to \$250,000 of taxable gain, and the exemption for other property disposed of in the year, which may not exceed the annual phase-in limit. In any case the total resulting exemption may not exceed \$250,000 less the exemption claimed by the individual in previous years.

#### **Repeal of Other Tax Provisions**

As a result of this initiative, the following tax provisions relating to capital gains are being repealed:

- The provisions relating to indexed security investment plans (ISIPs) are to be repealed as of January 1, 1986. Each security held under an ISIP at that time will be transferred out of the plan at its proportionate share of the cost for tax purposes of all securities under the plan so as to ensure that no tax will be paid by the planholder on repeal of the ISIP provisions. The unutilized balance of losses from previously terminated plans will be treated as a 1986 ordinary capital loss.
- The \$120,000 farm capital gains deferral through a registered retirement savings plan (RRSP) is repealed as of May 24, 1985. Contributions made on or after that day will continue to qualify if they relate to the sale of farm property prior to 1985. Where an individual has disposed of farm property in 1985 and made a special RRSP contribution before May 24, 1985, his eligibility for the \$250,000 capital gains exemption for 1985 will be reduced by the amount of the contribution. However, to the extent that the individual withdraws funds from an RRSP before the end of 1985, eligibility for the taxable capital gains exemption will be restored.
- The special \$200,000 rollover for the transfer of shares of a small business corporation by a taxpayer to a child will be repealed in 1988 –

the year in which the lifetime exemption limit reaches an equivalent amount.

- Taxable capital gains realized after 1984 will no longer qualify for the \$1,000 investment income deduction.
- The life insurance capital dividend account provisions are repealed, with the capital dividend account picking up any May 23, 1985 balance and subsequent net insurance proceeds.
- The special \$5,000 capital gains exemption for taxpayers who cease to be resident in Canada will be repealed effective after 1984.

#### **Maintaining Current Tax Treatment of Certain Other Income Items**

There are a number of provisions that currently treat certain items as capital gains for tax purposes. They will not be exempt under the new system but the budget proposes to leave the tax level on these items unchanged. To achieve this result, the following amendments are proposed:

- For employee stock options, any share acquired after May 22, 1985 by an arm's-length employee of a Canadian-controlled private corporation will give rise to a taxable employment benefit in the year the share is sold equal to 50 per cent of the difference between the fair market value of the share at the time the option was exercised and the exercise price, provided the share was owned by the employee for at least two years. Any gain accruing on the share after the employee acquires it will, of course, be eligible for the capital gains exemption.
- Similar changes are proposed for individuals who receive employer shares from a deferred profit sharing plan.
- On Canada Savings Bonds, 50 per cent of cash bonus payments received by a taxpayer after 1984 will be included in income as interest income. Currently this income is one-half taxable as a capital gain.
- Shares acquired by a prospector or grubstaker after May 22, 1985 in exchange for an interest in a mining property will give rise to income taxable in the year the shares are sold equal to 50 per cent of the fair market value of the shares at the time they were originally acquired.
- Stock dividends declared and paid after May 23, 1985 will be treated as regular dividends.
- The special rule that treats certain public company deemed dividends as capital receipts is being repealed so that dividend treatment will apply.

## **Treatment of Capital Losses**

Since the capital gains exemption proposal significantly alters the taxation of capital gains realized by taxpayers after 1984, consequential amendments are proposed to the tax treatment of capital losses:

- Currently up to \$2,000 of net capital losses of an individual may be deducted from other income. This is being repealed for losses realized after 1984. Deductions against other income, after 1984, of up to \$2,000 per year for net capital losses realized before 1985 will be reduced by the capital gains exemptions previously claimed by the taxpayer.
- Starting in 1985, the amount of net capital losses or allowable capital losses deductible from other sources of income in the year of death, and the immediately preceding year, will be reduced by the capital gains exemptions previously claimed.
- Allowable capital losses realized after 1985 that would otherwise qualify as allowable business investment losses will not qualify to the extent that the taxpayer has claimed capital gains exemptions for previous taxation years.

## **Conversion of Dividends into Capital Gains**

Under the current system, capital gains attract approximately the same effective tax rate as dividends and, as a result, there is little incentive to convert dividend income to capital gains. With the introduction of the lifetime capital gains exemption, individuals may prefer to receive capital gains eligible for the exemption rather than taxable dividends. To prevent the conversion of dividends into exempt gains, the budget proposes to amend the rules dealing with non-arm's-length share transfers by individuals to corporations, dividend stripping and the computation of paid-up capital. The following changes are proposed effective after May 23, 1985:

- An existing tax rule prevents the distribution of earnings of a corporation as a tax-free return of capital rather than as a dividend where there is a non-arm's-length transfer of shares by an individual resident in Canada to a corporation. It is proposed that this rule be repealed and replaced by a new rule that will provide for an immediate dividend and paid-up capital reduction where the total of the non-share consideration and the paid-up capital of the share consideration exceeds the paid-up capital of the transferred shares.
- Changes will also be made to the current anti-dividend stripping rules to ensure their application to transactions designed to convert dividends into exempt gains.
- Various paid-up capital adjustments are proposed for resource flow-through shares and shares issued under the share-purchase tax credit and

scientific research tax credit provisions. This will prevent an overstatement of capital that could otherwise be returned to shareholders without tax.

- For non-arm's-length transfers of depreciable property, the purchaser's capital cost will equal the vendor's. This change recognizes that, with the introduction of the capital gains exemption, there is a significant incentive to increase capital cost and generate capital cost allowance deductions in this manner. This will apply to non-arm's-length transfers of depreciable property after May 22, 1985. For capital gains purposes, the purchaser's capital cost will be his actual capital cost.

**b) Labour-Sponsored Venture Capital Funds**

The budget proposes a new tax credit to encourage long-term investment by individuals in labour-sponsored venture capital organizations set up within a province to maintain or create jobs and stimulate the economy.

The proposed federal tax credit will apply to shares purchased by individuals after May 23, 1985. The tax credit will equal either 20 per cent of the cost of the shares, or the amount required to bring the combined federal and provincial credits to 40 per cent of the cost of the shares, whichever is less. The maximum federal credit for a year will be \$700 for any one individual.

The federal credit will be conditional on the province providing the investor a provincial tax credit equal to at least 20 per cent of the cost of the shares. Venture capital corporations eligible for the federal credit would be patterned on a fund set up in 1983 by the Quebec Federation of Labour – le Fonds de solidarité des travailleurs du Québec.

To be eligible, funds will have to be set up under provincial legislation and managed by some form of labour association. Funds raised will have to be invested in active small and medium-sized businesses, with at least 60 per cent of the funds invested in equity investments.

Venture capital corporations eligible for the proposed federal credit would also be prescribed venture capital corporations under the *Income Tax Act*. This ensures that the credit provided on the share does not reduce its cost. As such, the credit will not increase the amount of any taxable capital gain on the eventual sale of the share.

**c) Investment in Small Businesses by Pension and Other Retirement Income Plans**

The budget proposes several measures to assist small and medium-sized businesses in obtaining equity financing from pension funds. These changes will encourage investments in small business by registered pension plans, registered retirement savings plans (RRSPs), deferred profit-sharing plans (DPSPs) and registered

retirement income funds (RRIFs) which together form one of the largest and fastest growing pools of capital in Canada. Their growth is expected to be encouraged by changes proposed to the treatment of RRSP contributions. First, RRSPs and RRIFs will be permitted to make arm's-length investments in the shares of private Canadian corporations. Second, registered pension plans will be allowed to establish special tax-exempt small business investment corporations to facilitate equity investments in small businesses. Third, the ability of pension funds and other deferred income plans to invest in small business investment limited partnerships will be expanded as these investments will no longer be grouped with foreign property for the purpose of determining a fund's overall limit on such holdings. Fourth, pension funds will be allowed to make \$3 of additional investment in foreign property for every \$1 of qualified investment in small business they make in Canada. This will allow pension plans to diversify their portfolios into foreign investments provided they also expand their investments in smaller Canadian businesses.

While there will be further consultation on these measures before final enactment, their basic features are described below. The government proposes to make these initiatives effective in 1986.

#### **1. RRSP Investments in Private Corporations**

The budget proposes to permit an RRSP to invest up to 50 per cent of its assets in the shares of Canadian-controlled private corporations resident in Canada that are at arm's length from the plan beneficiary. This provision will also apply to RRIFs.

To ensure that such investments are limited to genuine arm's-length situations, an investment in a corporation by an RRSP of a significant shareholder of the corporation will be considered not to be at arm's length. Similarly, a member of a partnership or an employee of a corporation will be considered not to deal at arm's length with the corporation if it is controlled by him alone or together with other partners or employees. Within the 50-per-cent limit, RRSPs and RRIFs will also be permitted to invest in the small business investment limited partnerships described below.

#### **2. Small Business Investment Corporations**

Pension funds will be permitted to set up special small business investment corporations (SBICs) to channel their investments in small businesses and venture enterprises. These corporations will be exempt from income tax, since they are simply conduits for pension plan investments. They will be permitted to make investments in shares and unsecured or subordinated debt of small and medium-sized Canadian corporations and in units of small business investment limited partnerships described below.

Pension funds are generally limited to holding not more than 30 per cent of the common shares of any corporation. A similar limitation will apply to investments through an SBIC, but in special circumstances the SBIC will be permitted to exceed the 30-per-cent limit on shareholdings on a temporary basis.

To target an SBIC's investments to smaller Canadian corporations, its total investment in any one corporation may not exceed \$10 million at any time. In addition, the total assets of the corporation in which the SBIC invests may not exceed \$35 million at the time the original or any additional investment is made. Where the corporation belongs to a group of associated corporations, these limits will apply to the group as a whole. In addition, the corporation would have to carry on an active business other than a financial, investment or other prescribed business. A special rule would require the interest rate on loans or other debt investments by an SBIC not to exceed a specified rate.

Investments by a pension fund in an SBIC will form a part of its "basket" investments under the pension fund investment regulations. Such investments are limited to 7 per cent of the book value of the total assets of the pension fund. The federal *Pension Benefits Standards Regulations* will be amended so that an SBIC can be owned either exclusively by a single pension fund or jointly with other funds.

### **3. Small Business Investment Limited Partnerships**

The budget also provides for a special category of small business investment limited partnerships (SBILPs) in which pension funds, RRSPs and other registered plans could invest as limited partners without having the investment considered as foreign property. Registered pension plans, RRSPs and other registered plans are subject to a special penalty tax if they invest more than 10 per cent of their assets in "foreign property", which is currently defined to include all partnerships.

SBILPs may invest in shares and unsecured or subordinated debt of small and medium-sized Canadian corporations with which the members of the partnership deal at arm's length. The rules would require an SBILP to divide among its partners each type of income it receives *pro rata* according to their respective interests in the partnership, and provide that no one plan may have more than a 30-per-cent interest in an SBILP.

Investments by an SBILP in small and medium-sized corporations will be subject to restrictions similar to those applying to investments by SBICs. They cannot exceed \$10 million in any corporation and the corporation cannot have total assets exceeding \$35 million. The arm's-length requirement will generally preclude investments by an SBILP in voting shares of corporations in excess of 50 per cent, except on a temporary basis. As in the case of SBICs, the interest rate on debt held by an SBILP could not exceed a specified rate.

### **4. Limit on Investment in Foreign Property**

Registered pension plans, RRSPs, DPSPs and RRIFs are restricted to a maximum foreign property holding of 10 per cent of their assets (based on values at the time of acquisition). A penalty tax of 1 per cent per month is charged on any excess foreign property held at the end of each month.

The budget proposes to increase the 10-per-cent limit for plans investing in small business. The limit on foreign property holdings of a plan for a particular calendar year will be increased by three times the amount of its average small business investments (at acquisition values) held in the preceding year. For the purpose of this measure, small business investments will include direct investments made on or after January 1, 1986 by a pension fund in shares and unsecured or subordinated debt of up to \$10 million in Canadian corporations with assets of less than \$35 million which qualify as investments for SBICs or SBILPs.

## **5. Foreign Property**

In addition, the budget proposes a further amendment to the foreign property rules for pension funds and deferred income plans. The special tax on holdings of foreign property, in excess of 10 per cent, can now apply to assets that are convertible to or exchangeable for foreign property. Thus, shares of Canadian companies are treated as foreign property in cases where the shares carry such conversion or exchange privileges. This is inappropriate and could lessen the market for financing of Canadian corporations. A budget proposal will exclude listed convertible or exchangeable shares of Canadian corporations from assets subject to this special tax, effective after 1984.

### **d) Non-Resident Withholding Tax**

An exemption from the non-resident withholding tax is currently allowed for interest payments on certain long-term debt obligations of corporations and on debt obligations of Canadian governments, provided these are issued by the end of 1985. The budget proposes an extension of this exemption for such debt obligations issued before 1989. The extension will ensure that corporations have continued access to long-term debt financing at competitive rates. In addition, an exemption from the non-resident withholding tax is being provided for interest paid to the Bank for International Settlements.

The government also proposes to examine over the coming year the extent to which the current exemption on withholding tax on foreign currency deposits held in banks can be broadened to include other financial institutions. To ensure that the exemption is not effectively applying to foreign currency used to finance domestic lending, to the detriment of other lenders, the issue of appropriate safeguards will be part of the review.

### **e) Housing Loans**

The budget proposes to exempt from tax certain benefits received by an employee as a result of an interest-free or low-interest housing loan received from an employer where the employee relocates in order to maintain employment or to begin a new job. The measure will apply in determining taxable benefits for the 1985 and subsequent years where the employment at the new location in Canada starts after May 23, 1985. Under the proposal, the maximum annual tax-free



benefit will be equivalent to the benefit arising from an interest-free housing loan of \$25,000, and will be available for the first five years of the loan. The new exemption will facilitate mobility of employees and takes account of the fact that housing loans are an effective way for employers to compensate employees who must move to an area where living costs are higher.

The exemption will apply in the same circumstances as those set out in the existing law governing the deduction of moving expenses, which requires the employee's new residence to be at least 40 kilometres closer to the new job than was his old residence.

## 2. Energy Taxes

### a) Implementing the Western Accord

The budget incorporates a number of changes affecting oil and gas taxation which implement certain provisions of the Western Accord agreed to by the federal government and the governments of Alberta, British Columbia and Saskatchewan. These changes involve the Petroleum and Gas Revenue Tax, the Natural Gas and Gas Liquids Tax, the Incremental Oil Revenue Tax and the Canadian Ownership Special Charge. The oil export charge and the petroleum compensation charge will be set at zero as part of the deregulation of oil prices occurring on June 1, 1985.

#### Petroleum and Gas Revenue Tax

The Petroleum and Gas Revenue Tax (PGRT) was imposed on January 1, 1981 for oil and natural gas production revenue and royalties. The current statutory rate of PGRT is 16 per cent, and the effective rate on conventional oil and gas, after a 25-per-cent resource allowance deduction, is 12 per cent. A temporary 8-per-cent effective rate is currently in effect for synthetic oil. Commencing on January 1, 1986 the PGRT will be phased out for existing production. This will be implemented by establishing two statutory PGRT rate schedules. The resource allowance provisions currently in effect will continue, effectively reducing the statutory rates on production revenue and royalties as shown in the table below.

#### PGRT Rates

	Conventional oil and gas		Synthetic oil	
	Statutory rate	Effective rate	Statutory rate	Effective rate
	(per cent)			
Production related to:				
1986	13.33	10	12.0	6
1987	10.67	8	8.0	4
1988	8.0	6	4.0	2
1989	0.0	0	0.0	0

### **PGRT Exemption for New Production**

Production revenue and royalties related to oil, natural gas, and gas liquids produced from new wells on which drilling began on or after April 1, 1985 will be exempt from PGRT. The exemption will require a reasonable allocation of total costs between exempt and non-exempt production. Production from wells existing prior to April 1, or from wells on which drilling commenced prior to April 1, will not qualify for the exemption. Incremental production revenue from a new waterflood or new tertiary oil recovery project certified by the Minister of Energy, Mines and Resources, which commences injection of fluids, steam, etc. on or after April 1, 1985 will also be exempt, with all the wells in the project being subject to an allocation factor representing the proportion of incremental production. Where all project participants elect to deduct the capital expenditures related to a new tertiary oil recovery project when it is to their advantage to do so, the production from the project would not be exempt under the new provisions.

An existing tertiary oil recovery project which qualifies for capital deductibility under the *Petroleum and Gas Revenue Tax Act* will generally not be eligible for the new production exemption, but where injection has not commenced before April 1, 1985, the project's participants collectively may elect to receive the exemption for incremental production by forgoing all claims for capital deductions.

### **PGRT Offsets**

The budget introduces a new provision which will enhance cash flow for companies that undertake new exploration and development expenditures, and are not currently paying corporate income tax. The provision will allow unused corporate income tax deductions associated with certain eligible exploration and development expenditures to be used to reduce a corporation's PGRT for taxation years ending after March 31, 1985. Eligible exploration and development expenses, net of government assistance and costs of overhead and financing, incurred after March 31, 1985, will be available in calculating a credit against a company's PGRT at 30 per cent of the write-offs allowed under the *Income Tax Act*. These credits will be available in the year the eligible expenses are incurred. This provision will allow a company to receive an immediate partial credit for its current unused deductions. The credits will be repayable to the federal government when the taxpayer claims the offset amount as a normal federal income tax write-off in later years.

### **Individual Income Exemption for PGRT**

The budget introduces an income exemption for individuals from the PGRT in order to simplify tax compliance. This measure will allow the first \$10,000 of an individual Canadian resident's annual resource income on production after December 31, 1985 to be exempt from the PGRT. This exemption will apply to all forms of resource income including royalty income. The current withholding tax system for resource royalties, except for non-residents, will be eliminated as of

January 1, 1986. Thereafter, individuals whose annual royalties and production revenue exceed \$10,000 will be required to file a PGRT return.

#### **Natural Gas and Gas Liquids Tax**

The Natural Gas and Gas Liquids Tax (NGGLT) was introduced effective November 1, 1980 and its rate has been set at zero since February 1, 1984. Section IV.1 of the *Excise Tax Act*, which levies the NGGLT, will be repealed.

#### **Incremental Oil Revenue Tax**

The Incremental Oil Revenue Tax (IORT) was introduced effective January 1, 1982. It was suspended for conventional oil effective June 1, 1982 and for synthetic oil production from the Suncor tar sands plant effective January 1, 1985. This special tax will be repealed for production after December 31, 1984.

#### **Canadian Ownership Special Charge**

The Canadian Ownership Special Charge (COSC) was introduced effective May 1, 1981 on petroleum, natural gas, and gas liquids consumed in Canada. The charge will be set at zero by regulation under the *Energy Administration Act* (EAA) effective June 1, 1985. The Canadian Ownership Account will be deleted, with appropriate adjustments made to the accounts of Canada. Part III.2 of the EAA, which levies the COSC, will be repealed.

#### **b) Successor Rules for Resource Expense Deductions**

Where the control of a corporation changes, special rules in the *Income Tax Act*, known as the successor rules, provide that any unused resource exploration and development expenses are deductible only against income derived from resource properties that were owned by the corporation prior to the change of control. These rules give an inappropriate result where a corporation that is not itself in a resource business has available to it such expenses that may have resulted from a flow-through share arrangement or some other similar arrangement with a subsidiary corporation. Where the corporation deducting the resource expenses does not own the properties that give rise to the expenses, the successor rules currently prevent the corporation from ever deducting these expenses following the change of control.

The budget proposes an amendment that would allow a corporation in these circumstances to deduct its resource exploration and development expenses to the extent of certain resource income of the subsidiary.

#### **c) Definition of Canadian Exploration Expense**

The budget proposes technical adjustments to broaden the definition of Canadian exploration expense to cover oil recovery through techniques such as gravity-

assisted drainage systems. The oil and gas industry will be consulted before any decision is taken to implement the new definition of Canadian exploration expense now scheduled to come into effect at the end of 1985.

### **3. Corporate Income Tax**

#### **a) Research and Development**

The budget makes a number of tax changes that recognize the importance of research and development (R&D) to Canada's growth and competitiveness. The lifetime exemption from tax on up to \$500,000 of capital gains will increase the rewards to individual investors in R&D performing companies. By itself, this budget proposal is important in enhancing the environment for high technology firms to raise equity capital. Other budget changes will: increase the amount of tax credit for current R&D expenditures that is refundable directly to non-taxable small businesses including start-up corporations; remove restrictions on the definition of R&D that qualifies for tax incentives and improve administration of the incentives; and eliminate the scientific research tax credit.

#### **Increased Refunding of Tax Credit for R&D**

The budget proposes that the tax credit earned by small Canadian-controlled private corporations for current expenditures on R&D be made 100 per cent refundable. At present, the refundable portion of the unused credit of such corporations is limited to 40 per cent of the credit earned – a provision scheduled to expire on April 30, 1986. Under existing rules, the remaining part of a firm's unused tax credit can be carried forward to reduce tax for up to seven years. Under the new proposal, the full amount of the credit earned will be available to the taxpayer, either as a reduction of tax liability or as a cash refund. This increased refund provision for R&D will not be subject to an expiry date, and will be effective for qualifying expenditures made after May 23, 1985.

The tax credit for small firms now applies on the first \$2 million of R&D performed in a year by an associated group of companies. At that level of R&D expenditure, the maximum credit amounts to \$700,000. The additional refund of unused credits will be of most use to small start-up R&D firms who may not otherwise be able to use tax incentives immediately and the measure will provide additional financing at this stage of their development.

The fully refundable credit will apply only to current expenditures. Capital expenditures can be more easily funded by pledging the asset as security for financing. Credits earned on expenditures for capital property will continue to qualify for the existing partial 40-per-cent refund until April 30, 1986. The increased refund of tax credits will not be available to tax-exempt entities or corporations they control.

These credit claims will be validated by Revenue Canada on the assessment of the taxpayer's return and it is important that the refunds be made without undue

delay. Accordingly, a special group of assessing and audit staff within Revenue Canada will be set up to administer refund claims to provide refunds to the taxpayer as soon as possible. This will give the taxpayer early assurance that he has performed qualified R&D eligible for the tax refund.

#### **Improved Definition and Administration of R&D Tax Incentives**

The budget proposes several changes to the law affecting the definition of R&D for the tax deduction and the tax credit, as well as improvements in the administration of the incentives.

The existing tax incentives for R&D provide a tax credit of between 20 and 35 per cent of R&D expenditures. As well, the eligible capital and current outlays on R&D are immediately deductible in determining income subject to tax.

Industry has expressed concerns about the existing requirement that expenditures eligible for the R&D incentives must be wholly attributable to R&D. The budget proposes that this requirement be replaced by a provision that an expenditure "all or substantially all" of which is attributable to R&D will qualify. Current expenditures of a taxpayer that are "directly attributable" to R&D will also qualify for the incentives. This change will apply to expenditures made in taxation years ending after the budget.

The change affecting current expenditures will allow, on a prorated basis, R&D tax treatment for the direct costs of personnel who, while not solely involved with research, do directly perform R&D part of the time, support R&D personnel, or directly supervise researchers. This is equivalent to the treatment in the United States for their R&D tax incentive. These changes will be of particular benefit to those smaller companies where management personnel engage directly in R&D activities.

Relaxation of the "wholly attributable" rule will allow, in the case of capital expenditures, minor or incidental use of equipment for non-R&D purposes without the equipment becoming ineligible for the tax incentives.

It is also proposed that the term "scientific research" in the *Income Tax Act* and Regulations be changed to "scientific research and experimental development". This change recognizes that the bulk of industrial R&D is concentrated on the experimental development of new products or processes, rather than pure or applied research. The phrase "experimental development", which is consistent with international usage, confirms that R&D does not include projects involving only routine engineering or routine development.

More effective administration and greater certainty for taxpayers are key elements in improving the impact of the R&D incentives.

The Minister of National Revenue will be announcing changes to the administration of the R&D tax incentives, including the hiring or contracting of technical experts to aid tax auditors in the determination of qualified R&D. These

experts will automatically become involved in cases where R&D claims are in dispute between taxpayers and the regular tax auditors. In some cases, the technical expert may be on site to deal directly with the company. This will ensure that taxpayers (whether claiming the regular tax incentives for R&D or the refundable credit) have direct access to experts in the case of doubt.

A standard prescribed form will be developed for the claiming of both the regular tax incentives and the refundable tax credit. Such a form will aid the audit process as well as provide greater guidance to taxpayers on eligible expenditures for R&D. The form will also aid in evaluating the effectiveness of the R&D tax incentives.

#### **Scientific Research Tax Credit**

The budget proposes that the scientific research tax credit (SRTC) be eliminated, effective immediately. The SRTC provided a mechanism whereby R&D firms who were currently in a non-taxable position could transfer their unused tax incentives to outside investors. An examination of this incentive, following the moratorium announced on October 10, 1984 on certain "quick flip" SRTC investments, has revealed problems in ensuring the effectiveness of the program.

Qualifying shares issued pursuant to the terms of agreements entered into prior to May 23, 1985 will continue to qualify for the SRTC, provided that they are issued before 1986. Qualifying shares issued during the moratorium, and other investments issued before 1986 that were subject to the grandfathering provisions announced in the October 10, 1984 press release, will also continue to qualify. Qualifying shares are those which would have qualified for share-purchase tax credit treatment at the time the agreement was made.

The increased direct refundability to companies of the tax credit for R&D, and the exemption from tax on capital gains are more cost-effective incentives for assisting the financing of R&D.

#### **b) Small Business Bonds**

The small business bond (SBB) program provides reduced interest rates for farmers and small businesses in financial difficulties. The budget proposes to extend this measure for a further two years to cover debt instruments issued by the end of 1987. Previously the measure was scheduled to expire at the end of 1985.

The SBB program makes possible lower interest rates for eligible borrowers by allowing a tax exemption on interest earned on the loans by financial institutions. At present, farmers and small businesses can arrange financing of up to \$500,000 at interest rates that have typically been 5 or 6 percentage points less than they would otherwise have to pay. The maximum term of small business bonds is five years.

A further budget proposal would allow existing borrowers under the SBB program and the previous small business development bond program, which was in effect in

1980 and 1981, to refinance those loans when they come due if the borrowers are in financial difficulty at the time of the refinancing.

This special tax program has resulted in nearly \$700 million of small business bonds being issued. Some 60 per cent of the outstanding loans are held by farmers and the balance by incorporated and unincorporated small businesses.

**c) Special Investment Tax Credit**

The special investment tax credit of 50 per cent for investment in manufacturing in designated areas, introduced in 1980 for a five-year period, is due to expire at the end of 1985. The designated areas include the Gaspé peninsula, selected areas in the Atlantic provinces, northern areas of the other provinces, and areas in Yukon and the Northwest Territories. The budget proposes to extend this special credit until December 31, 1986. Furthermore, the budget proposes that expenditures related to projects which have not been completed by the end of 1986 will also qualify for the tax credit. Buildings under construction as of the end of 1986 and machinery and equipment ordered in writing before 1987 will also earn the credit provided that these assets are acquired before 1988.

**d) New Tax Incentive for Investment in Cape Breton**

In recognition of the economic situation of Cape Breton Island, the budget announces a new tax initiative to encourage investment on Cape Breton Island. This tax initiative forms a key part of the general adjustment program for this area. Projects approved by the Minister of Regional Industrial Expansion will be offered a 50-per-cent tax credit for the acquisition of new eligible assets to be used on Cape Breton Island. This special tax credit can be carried back three years and carried forward for a 10-year period to offset federal income tax otherwise payable.

As a result of this new initiative, for many projects in Cape Breton, no federal income tax will be payable for 10 to 15 years.

The current 50-per-cent tax credit in special regions covers investments in manufacturing and processing only. Under the new incentive, sectors such as farming, logging, and other resource-related activities henceforth will be covered by the new 50-per-cent credit, rather than the 20-per-cent credit now applicable. In recognition of the special situation in Cape Breton and to enhance the job-creation potential of this measure, additional activities will be eligible for approval. These will include certain tourism facilities, the technical services-to-business sector, and the provision of central facilities for receiving, storage and distribution.

Property currently eligible for the regional investment tax credit such as buildings, machinery and equipment in these sectors will be eligible for this new credit as prescribed by Regulations to the *Income Tax Act*. Expenditures related to certain movable equipment, such as automobiles, trucks, vessels and other transportation equipment will not qualify.

The total capital expenditures projected in respect of depreciable property must be at least \$50,000 for the project to qualify for the new Cape Breton credit. The project will require the approval of the Minister of Regional Industrial Expansion, who will certify that the eligible expenditures are related to the approved project. To qualify, approval of the project will be required before July 1988 with expenditures made after May 23, 1985 and before 1993. The government is prepared to deal immediately with approval of individual projects on the basis of this proposal to ensure that they can proceed in an expeditious manner.

An advisory committee will be created, composed of private sector representatives, to provide counsel on economic development measures for Cape Breton Island. This advisory committee will be asked to review the effectiveness of the new measure and its scope, and to advise on the possible inclusion of other activities beyond those listed above.

e) ***The Corporate Income Tax System Discussion Paper***

A new approach to support economic growth through the corporate income tax system – by means of fewer tax incentives and lower tax rates – is suggested in a discussion paper *The Corporate Income Tax System: A Direction for Change*, tabled with the budget. The approach is presented as a basis for a broad public discussion of how the operation and effectiveness of the corporate tax system can be improved.

The illustrative option outlined in the paper would involve a significant reduction in statutory tax rates for all corporations, with the basic federal rate of tax cut from 36 to 29 per cent, coupled with reductions in the most rapid rates of write-off for depreciable assets and elimination of the investment tax credit. The tax credit for R&D would be retained, as would a tax rate advantage for manufacturing and processing, and small business.

The proposals advanced for discussion are not designed to increase revenues from corporations, but rather to raise the same tax funds in a simpler manner while reducing government intervention in market decisions and narrowing differences in tax burden across industrial sectors and types of investment. The suggested changes would also deal effectively with a number of problems in the current system.

The public study of the paper which the government invites will not be limited to that proposal and no comprehensive changes will be introduced without the fullest public discussion.

The paper's detailed examination of the corporate tax system takes up one question raised in the document *A New Direction for Canada: An Agenda for Economic Renewal* issued November 8, 1984: whether the various incentives by government combine to distort the market signals that are the basis of business decision-making. It suggested that the Canadian economy could be better served by fewer special industrial incentives and by incentives that were simpler and more general in their application.



The particular proposal outlined in the paper is offered for discussion to demonstrate the possibilities for improvement. Its cornerstone is a significant reduction in the basic federal rate of corporate tax from 36 to 29 per cent, and in the rate for small businesses from 15 to 11 per cent. The special rate reduction for income from manufacturing and processing would remain, with that rate falling from 10 to 6 per cent for small businesses and from 30 to 23 per cent for larger businesses.

These cuts would be balanced with reductions in two kinds of tax incentives that favour particular investment areas. One is the accelerated capital cost allowances (CCA) for new investments including manufacturing and processing assets and energy-saving and construction equipment. The CCA, which now allows write-offs in three years in steps of 25, 50 and 25 per cent, would be brought more in line with the treatment of other investments – 25 per cent on a diminishing balance basis. The second incentive – the investment tax credit – would be eliminated except for the credit for scientific research expenditures.

The change is designed not to reduce incentives for investment, but to shift the way in which they are delivered. In sum, the effect would be to change the tax system from one which subsidizes effort to one which rewards success.

Among its results:

- with lower tax rates, successful businesses would be able to retain a higher proportion of their profits for reinvestment;
- tax distortions in investment decision-making would be substantially reduced, allowing investments to be allocated more efficiently and leading to a higher growth potential and greater employment creation;
- sectors such as the service industries, which have been a substantial source of job creation, would benefit from the redistribution of the tax burden; and
- the impact of corporate taxes would be spread more evenly among corporations. Profitable firms now paying no taxes because of up-front incentives on investments would start to pay taxes.

The paper also notes that the large build-up of unused tax deductions and tax credits was one of the main reasons for the decision of the Ministers of National Revenue and Finance to cease issuing advance tax rulings in the case of limited partnership arrangements. The government remains concerned about the possibilities for tax shelter financing that these arrangements present, and the possibility of providing for explicit rules in the area remains under active study.

Pending the completion of that review, advance rulings will continue to be unavailable.

**f) *A Corporate Loss Transfer System Discussion Paper***

A proposal for a new tax concept that would allow the transfer of losses among member corporations of a commonly-owned group is set out in a discussion paper released with the budget.

The paper, *A Corporate Loss Transfer System for Canada*, is one specific result of a broad and ongoing examination of ways to remove barriers to private sector activity and reduce complexity in tax laws and business operations, in line with the view set out in *A New Direction for Canada: An Agenda for Economic Renewal*.

Under the new proposal, business losses of a corporation within a 95-per-cent commonly-owned corporate group could be used to offset taxable income of other corporations in the group. One important consequence would be to free managers from the need to adjust corporate structures purely for tax reasons, to achieve the same result. Some corporations cannot arrange their affairs to offset losses and income of separate members of a corporate group for reasons such as regulatory restrictions or because of the undesirable effects on their business operations that would result from the corporate manoeuvres necessary to achieve the tax results.

Wide public discussion of the proposal is invited. Detailed consultations with the provinces and industry are proposed. The paper includes draft legislation as an aid to consideration of its specific proposals.

Allowing immediate use of losses within a corporate group, rather than deferred use through loss carryover by the individual corporation, would involve significant revenue loss for governments. Federal revenues could be expected to decrease by some \$300 million to \$400 million in the first full year of operation of the proposed new system, as a result of a more widely available and simpler mechanism than now exists to offset losses against income within a corporate group.

The proposal set out in the discussion paper would apply to a corporate group consisting of a parent taxable Canadian corporation and subsidiaries that meet the test of having at least 95-per-cent common ownership. Member corporations using the provision would have to make annual joint elections in their tax returns; a sub-group could make the election – it need not involve all member corporations in the group.

A corporation's non-capital loss for a year could be transferred. The transfer would reduce or eliminate the non-capital loss of the transferor, and the transferred amount would be allocated to one or more other specified member corporations as deductions in computing their taxable incomes. The proposal would not require compensation to be paid by the corporations which get the tax benefit from the loss transfer, but there would be no barrier to payment of reasonable compensation.

Certain corporations subject to special tax rules would not be entitled to make or receive loss transfers because of the nature of their business. These include investment corporations, mutual fund corporations, co-operatives and credit

unions. As well, special rules would apply to farm corporations, principal business corporations in rental or leasing, insurance companies, personal services businesses and bankrupt firms.

## **B. Labour Market Initiatives**

The government has undertaken a fundamental reform of its policies for training and employment development and is proceeding with a review of unemployment insurance (UI). The objective is to address in a more effective and equitable way the problems of continuing high unemployment and the provision of skills required by people in a labour market subject to rapid economic adjustment.

### **1. Training and Job Creation**

In December 1984 a consultation paper on training was released by the Minister of Employment and Immigration. The paper provided a basis for consultations with a wide range of organizations and individuals.

As a result of these consultations, a new federal approach to labour market development was announced at the First Ministers' Conference on the Economy in February 1985. A key principle is that federal support will be part of a collective effort with the private sector and the provinces. Simpler, more flexible, decentralized programs and an integration of training and job creation will be features of the strategy. The details of the new program elements will be announced at a later date by the Minister of Employment and Immigration.

An additional \$900 million for labour market development has already been announced for 1985-86. The government is also announcing that it intends to allocate \$900 million to the new labour market development strategy in 1986-87. This commitment now will provide greater certainty to those designing and implementing these new programs. This should help get these off the ground and operating more quickly.

### **2. Unemployment Insurance**

#### **a) Program Review**

As announced in the November 1984 Economic Statement, the government will undertake a thorough review of the UI program. This review will be carried out by a special committee composed of leading Canadians from the private sector. Its mandate will be to re-examine and redefine the role of the UI program within the context of the Canadian social security system. More specifically, the objective of the committee is to review the changes which should be made to the program:

- to improve the operation of labour markets in Canada;
- to support more effectively the nation's economic development;

- to ensure equitable financing of the program; and
- to provide new and better opportunities for Canadians experiencing temporary unemployment.

This review will take account of developments in the labour market, in other social programs, in private income protection plans and in the attitude and aspirations of Canadian workers.

The committee, whose members will be announced shortly by the Minister of Employment and Immigration, will begin its deliberations in June and be expected to submit its final report to the Minister before the end of the current fiscal year.

There have been urgent calls from many quarters for reform of the UI program. Yet, because the program is so large, so complex, and impacts on Canadians so directly and in so many different ways, any changes are bound to be far-reaching. In addition, since UI is in large part financed by premiums from employers and employees, it is vital that these financing partners play the major role in the review to ensure a thorough and impartial re-examination of the program. Changes must only be introduced after the views of Canadians from all walks of life have been taken into consideration. To the extent any federal savings occur, they will be reallocated to support training and employment programs.

#### **b) Variable Entrance Requirements**

Current variable entrance requirement (VER) provisions permit eligible claimants to receive UI benefits after a minimum of 10 to 14 weeks of insurable employment, depending on the unemployment rate prevailing in the region where they reside. Under existing legislation, these provisions would expire on June 1, 1985, after which minimum entrance requirements would increase automatically to 14 weeks across the country.

In view of the variety of impacts this would have, and to allow time for the UI program review to be completed, the government will recommend to Parliament that the VERs be maintained at their present levels until December 31, 1986.

#### **c) Premium Rates**

Legislation will be introduced to ensure that the premium rate for 1986 is maintained at the 1985 level of \$2.35 per \$100 of insurable earnings for employees and \$3.29 for employers. Preliminary indications are that under existing legislation weekly UI contribution rates in 1986 could increase to \$2.60 per \$100 of insurable earnings for employees and \$3.64 for employers. This would represent an increase of 11 per cent over current rates and result in additional premium payments of about \$1 billion in 1986. The government is concerned, as it was in November 1984 when premium rates were last set, that an increase of this magnitude would impose an additional burden on the private sector, especially on small businesses, that would hinder job creation and economic recovery.

Moreover, the government's decision to maintain the premium rate will enable the special committee to review the financing of the program without jeopardizing its financial position. The cumulative deficit in the UI Account is still projected to be eliminated by the end of the decade.

## II. Improving Government Effectiveness

### A. Improving Government Management

#### 1. Ministerial Task Force on Program Review

The need for a comprehensive and probing review of federal government programs has become a key national requirement. Numerous public submissions to this government have underscored how much Canadians recognized that need. As a result, the Ministerial Task Force on Program Review, led by the Deputy Prime Minister, was constituted by the Prime Minister of Canada in September 1984. Other ministers on the Task Force are the Minister of Finance, the Minister of Justice, and the President of the Treasury Board.

A formal status report, *New Management Initiatives: Initial Results from the Task Force on Program Review*, is tabled with this budget.

The following measures are among the most prominent results of the Task Force review to date. They are drawn from the reviews of three study teams that are reported in detail in the status report.

- A complex scheme of grants, tax incentives, loan guarantees and other means of subsidizing business investment has evolved in Canada over the years. As a result of this *ad hoc* system, investment projects can receive federal support through more than one federal program, from corporate tax incentives, and from provincial governments as well. These various forms of subsidy can be “stacked” one upon the other. The budget addresses one aspect of this issue, and the government will be consulting with provinces and industry about other possible changes.
- Federal employment programs are fundamental instruments for a government concerned about the employability of its citizens. These programs should be effectively targeted to the people who need them most and designed to ensure that workers have skills that correspond to the needs of our economy. Program review has determined that greater effort is needed to ensure that these two imperatives are met. Flowing from the new Labour Market Strategy, the main thrust of changes to federal training programs is to increase the economic orientation of training and to align federally-funded courses more closely with labour market needs. Job creation programs will benefit from improved targeting on the longer-term unemployed, more private sector input, tailoring to regional needs and harmonization with provincial programs.

- There is a continuing need for productivity improvement and modernization in the agri-food sector to meet stiff international competition. New technologies applicable to agriculture are being developed at an accelerating pace. Canadian producers and processors need to adapt continuously to the contemporary business climate to remain competitive. Canadian farmers have major investments to manage: to be successful today they have to become as knowledgeable about financial investment and modern management techniques as they are about animal husbandry and crop management. The government recognizes the importance of designing and operating programs for the agri-food sector on a businesslike basis, while relying on private sector initiatives for even better performance from this highly competitive and increasingly modern sector of the economy. The cornerstone of its approach will be new commodity development strategies for agriculture.

These areas are key to the government's economic policy and are among the priorities consistently identified and underscored in the Throne Speech, in the November Economic Statement and again during the Regina First Ministers' Conference on the Economy. The recommendations deal with important aspects of the government's commitment to economic renewal, to the restoration of fiscal responsibility in areas previously neglected, and to the removal of obstacles which hinder the growth of the economy. Measures announced by the Ministerial Task Force are the first of many changes that will result from the year-long review of all federal programs and services.

## **2. Rationalization and Privatization of Crown Corporations and Other Federal Investments**

In support of the thrust to achieve better management, the government intends to proceed with the rationalization of its portfolio of Crown corporations and other equity investments. In some cases, this will involve the sale of corporate holdings; in others, it may only involve reorganization and streamlining.

In the process of rationalizing its corporate holdings in the future, the government will adopt a new approach based on the premise that a Crown corporation or other equity investment should be sold unless it is fulfilling a public policy purpose. This way, the government will return to the private sector activities that more properly belong there. Where appropriate, other measures such as reorganizations or shut-downs will be considered as alternatives to privatization.

While the government today is announcing a new approach with respect to privatization, actions have been underway for some time with respect to the rationalization of the Crown corporations portfolio. In the November 8, 1984 Economic Statement, it was noted that the government had announced its intention to sell the assets of the Canada Development Investment Corporation and would be examining the scope for further divestiture. Since that time, the government's options regarding the sale of Teleglobe Canada and of its holdings in the Canada Development Corporation (CDC) have been further developed and

discussions are underway with parties interested in purchasing Canadair, de Havilland and Eldorado Nuclear Ltd. The government has also announced agreement in principle on the sale of the Northern Transportation Company Ltd. (NTCL). In addition, the government has taken the decision to sell Canadian Arsenal Ltd. and several expressions of interest in this company have been received. The government will also be approaching other corporations who may have an interest in purchasing this highly specialized company. In addition to NTCL, it is expected that agreements to sell Canadian Arsenal Ltd., Teleglobe Canada, and the government's interest in the CDC will be reached before the end of this year. It is anticipated that the sale of these four holdings will reduce the government's cash requirements by approximately \$675 million and the federal deficit by some \$350 million in 1985-86.

The government is also making progress in winding up corporations that no longer serve public policy purposes or that are inactive. In this regard, legislation has already been introduced in Parliament to wind up the Canadian Sports Pool Corporation, Loto Canada Inc., and Canagrex. These corporations no longer serve public policy objectives. Legislation is also being prepared to wind up five corporations that are inactive – namely, Uranium Canada Ltd., Mingan Associates, Società San Sebastiano, CN (West Indies) Steamships Ltd. and St. Anthony Fisheries Ltd. In addition, where the corporate mode of operation is inappropriate, some corporations will be folded into existing departments.

Selling corporate interests will have a number of benefits. It will reduce the size of government in the economy and make room for private sector initiatives; it will improve market efficiency and the allocation of resources; it will improve firm efficiency through market discipline and by reducing political and bureaucratic impediments; and, in certain cases, it will encourage investment by individual Canadians through direct participation in the ownership of major national corporations that they have supported as taxpayers.

To ensure that privatization is accorded a high priority on the government's agenda, a special Ministerial Task Force has been created under the chairmanship of the President of the Treasury Board. Other members of the committee include the Minister of Energy, Mines and Resources, the Minister of Regional Industrial Expansion, and the Minister of State (Finance). The Task Force has been charged with developing a comprehensive privatization action plan. The Task Force will carry out a review of corporate interests based on the new approach described above and will recommend to the government a privatization plan for those corporations where no convincing public policy reason exists to retain them in the public sector. To support the Task Force in its deliberations, a special secretariat headed by a senior official and located within the Treasury Board Secretariat has been created.

Prior to taking a decision that a particular interest should be sold, the government is determined to proceed in a businesslike manner and address all of the considerations which go with sound management. Thus, the Task Force's deliberations will be guided by the following principles:



1. The government will be sensitive to the concerns of management and employees of corporations that may be considered candidates for sale. While recognizing that negotiations must be conducted confidentially, every effort will be made to keep these groups informed of significant developments and to ensure that their legitimate interests are not jeopardized.
2. The type of market competition and the impact on consumers that is likely to develop after a sale will be an important consideration for each divestiture.
3. Provincial governments will be consulted to ensure that provincial and federal privatization programs do not conflict.
4. Crown corporations will not be sold at distress prices merely to transfer them quickly to the private sector. A large deficit and normal fiscal prudence dictate that the privatization program should proceed at a measured pace with careful consideration of all the issues, not the least of which is the receipt of a fair and reasonable price for each asset.
5. The divestiture of large corporations may need to be accomplished in stages, in which case there will be periods of mixed, private and public ownership. In these situations the government will consider the nature of its participation and provide assurances to private sector investors that government will be guided in exercising its ownership rights by the same commercial objectives that guide the corporation's private sector shareholders.
6. In recognition of the diverse nature of the various corporate holdings, issues such as the method of sale, eligible purchasers, foreign and domestic ownership restrictions, purchaser commitments and government obligations and commitments, will be examined on a case-by-case basis, rather than being subject to a general approach.

### **3. Pensions of Members of the House of Commons and Senators**

The pension plans of Members of the House of Commons and Senators will be reviewed to ensure that their pension arrangements in the future will be in line with reforms announced for public service pension plans and with the proposed new standards for private plans. To the extent possible, M.P.s' and Senators' retirement plans will be expected to be generally consistent with the constraints and principles under which private sector plans operate while continuing to recognize the unique nature of parliamentary service. In particular, the government proposes to end the guarantee of full indexation of M.P.s' and Senators' pensions, effective January 1, 1986.

A Joint Committee of the House of Commons and Senate will be established to review all aspects of M.P.s' and Senators' pension arrangements, including:

1. the levels of benefits and contributions of these plans;

2. alternative approaches to indexation in view of the levels of protection afforded other retired Canadians, both in the private sector and in the public sector; and
3. the extent to which individuals may receive one or more employment pensions from the federal government plus a salary for a post-retirement appointment. This is often called "double dipping".

It is the view of the government that, as a general rule, retirees from the public sector should not receive a combination of pension and salary which exceeds the higher of the former or new salary level: either the pension should be deferred or the new salary abated. There is, nevertheless, a great variety of circumstances involved and the government wants the advice of the Committee before developing its preferred approach.

The Committee will be established immediately and will be asked to report in time for the necessary legislation to be introduced into Parliament with a view to enactment by the end of 1985.

The President of the Treasury Board and the President of the Privy Council will provide further information shortly.

#### **4. Cost Reductions Due to Better Management**

##### **a) Introduction**

Last November, as part of the Economic Statement, the President of the Treasury Board published a report entitled *Expenditure and Program Review*. That document presented an initial round of expenditure reductions and revenue increases which targeted budgetary and non-budgetary savings totalling \$4.2 billion in 1985-86. Of this, approximately \$1 billion resulted from the adoption of more businesslike management practices. These included measures to reduce overhead, to increase revenues from government-provided services and generally to tighten the government management system. Since November 1984 the government has been reviewing a number of ways to realize further cost savings through more efficient management across the entire federal government. As a result of this review, more progress has been made. The review process will continue until the government is confident that it has thoroughly examined all facets of its management regime.

##### **b) Summary of Strategies**

The review process to date has caused the government to adopt a number of new management strategies based on a more businesslike and frugal attitude to the operations of government. These are summarized below:

1. The previous practice of automatic increases to departmental budgets to compensate for inflation will be eliminated. This will force managers across government to find more efficient ways of doing business.

2. To reinforce and realize the government's commitment to leaner, more productive government, the size of the public service will be reduced by 2 per cent in 1986-87, with further reductions thereafter resulting in an overall decline of 6 per cent by the end of the decade.
3. A more businesslike approach to budgeting will be adopted by the government. Individual ministers are being given more discretion and flexibility in the use of departmental budgets, but in return are expected to remain within approved expenditure levels. Thus, funds set aside in the total spending plan for contingencies have been dramatically reduced.
4. A new cash management strategy is being introduced which will make available to the government surplus cash currently in the hands of Crown corporations, require Crown corporations with profitable operations to pay dividends, and establish new ground rules to minimize cash requirements across the government.
5. A much more vigorous approach will be taken to the review and disposal of real property than occurred in past years.
6. A fair but firm policy on cost recovery will enforce a user-pay concept for certain federal goods and services.

#### c) Summary of Savings

These new management initiatives will result in expenditure savings and revenue increases totalling \$1.2 billion in 1985-86, \$1.7 billion in 1986-87, and targeted savings of \$2.3 billion annually by 1990-91. These are in addition to the cost savings that resulted from the November 1984 initiatives in this area. The sources of savings are summarized in the following table.

#### Management Savings

	1985-86	1986-87	1990-91
	(millions of dollars)		
Reduced allowance for inflation	233	528	915
Public service rationalization	-	150	480
Reduced contingencies	433	446	400
Cash management	414	233	190
Real property management	105	310	50
Cost recovery	-	65	215
Sub-total	1,185	1,732	2,250
November reductions (excluding tax revenues)	1,007	931	1,150
Total	2,192	2,663	3,400

The approaches being taken to achieve these savings are outlined in more detail in the following sections.

**d) Specific Initiatives**

**(i) Reduced Inflation Allowances**

During the past decade of high inflation, the operating and capital budgets of federal departments were automatically adjusted each year so they could maintain their purchasing power. Now that inflation has fallen well below 5 per cent, such a practice no longer appears necessary. Moreover, the flexible budgeting procedures now being introduced will enable managers to overcome some of the effects of inflation by reallocating their existing funds rather than requesting new funds.

Last November an ongoing saving of approximately \$250 million was realized through limiting inflation allowances. Further limits on inflation allowances will yield additional savings of over \$200 million in 1985-86 and more than \$500 million in 1986-87.

As part of these savings, the government has reconsidered its policy of providing inflation protection for a number of specific subsidy programs to organizations. While discretionary increases will still be considered by the government, no automatic adjustments will be made in the future. Savings from this initiative are estimated at \$75 million in 1986-87.

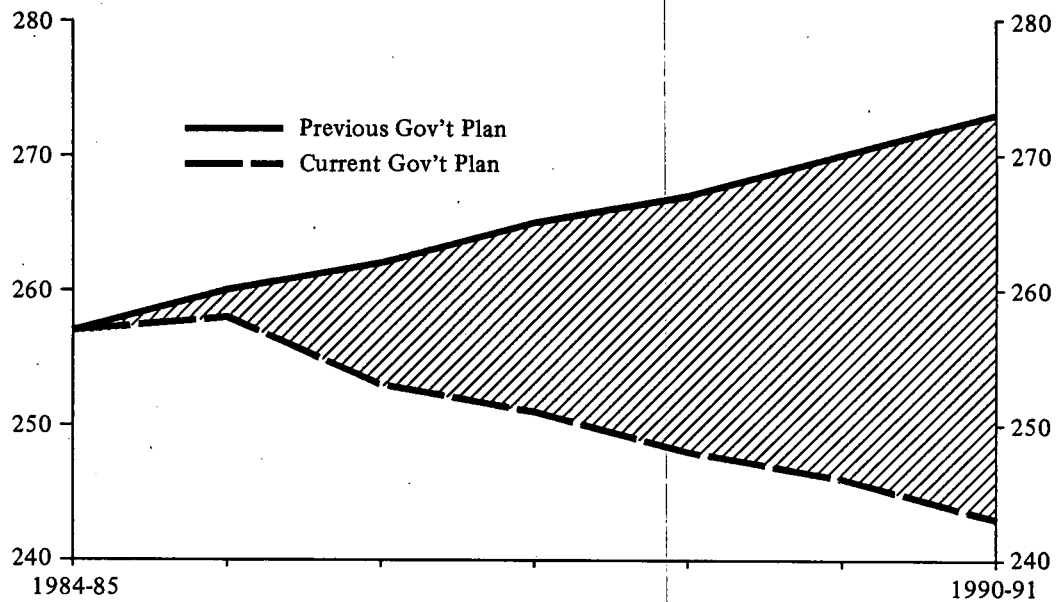
**(ii) Public Service Rationalization**

In line with measures to cut programs and decrease the deficit, the government is determined to reduce the size of the public service. The government's intention is to reduce total Treasury Board controlled person-years, as set out each year in the *Main Estimates*, by approximately 2 per cent in 1986-87 and by a further 1 per cent each year thereafter for a period of four years. Similar reductions will be made to the salary budgets of those departments and agencies whose person-years are not controlled.

The government's focus in these measures is on reducing the size of the ongoing public service required to deliver government programs. The intention is to achieve a leaner, more efficient public service, as well as to reduce government expenditures on salary budgets. The number of public servants in 1990-91 will be 15,000 fewer than at present, and 30,000 fewer than would have been the case had the previous government's 1-per-cent growth trend been followed. In dollar terms, this means that approximately \$150 million will be saved in 1986-87.

Reductions of this magnitude will not be achieved easily. They will require a major effort on the part of individual ministers and public service managers. The government has already begun planning specific measures that will be necessary over the medium and longer term to realize these savings. It is anticipated that some reductions can be achieved through continued productivity increases. In addition, the government will consider the privatization of certain government

**Comparison of Person-Year Targets  
Treasury Board Controlled Person-Years  
(Thousands)**



activities and the contracting-out of others. It will terminate agencies that have outlived their original mandates and examine areas where federal services duplicate those offered by other levels of government. Initiatives proposed by the Ministerial Task Force on Program Review are expected to contribute to these reductions.

In carrying out these measures, efforts will be made to achieve reductions through attrition wherever possible. The President of the Treasury Board has already announced a set of innovative new work force adjustment policies that will assist public service managers in minimizing the impact of these reductions on employees.

**(iii) Reduced Contingencies**

In the past, supplementary funding has often been provided to departments in addition to the amounts listed in the *Main Estimates*. This government intends to severely curtail such supplementary funding and will be giving ministers additional flexibility to reallocate funds within approved budgets to meet priority needs. For the 1985-86 fiscal year, \$433 million has been removed from contingency reserves; in 1986-87, \$446 million will be removed. This is in addition to the \$235 million in 1985-86 and \$275 million in 1986-87 removed in November 1984. Contingency reserves in all future years beyond 1986-87 have been reduced by \$400 million annually in addition to a reduction of \$200 million announced last November.

#### (iv) Improved Cash Management

As part of this government's continuing commitment to adopt a more businesslike approach to the management of its financial affairs, a number of initiatives to improve cash management will be implemented. These are in addition to the measure to save more than \$500 million through more rigorous attention to revenue collection already announced by the President of the Treasury Board in the government's *Expenditure and Program Review* tabled in November 1984. The new initiatives focus on the government's transactions with its Crown corporations and a wide variety of other parties with whom it deals.

A number of Crown corporations currently hold large amounts of cash and investments that have been identified as surplus to their requirements. The majority of these amounts represent accumulations of operating income within largely self-sufficient Crown corporations. Over the next two years, cash recoveries of approximately \$500 million will be realized. These cash recoveries will make a positive contribution towards reducing the Government of Canada's borrowing requirements and ultimately its deficit, but are expected to have no significant impact on the corporations' activities. The nine Crown corporations that will be affected by this measure, and their respective contributions to cash recovery, are:

#### Corporation

	1985-86	1986-87
	(millions of dollars)	
Canada Mortgage and Housing Corporation	26	-
Teleglobe Canada	108	-
Petro-Canada	50	30
Atomic Energy of Canada	50	20
Standards Council of Canada	1	-
International Development Research Centre	15	-
National Capital Commission	33	-
St. Lawrence Seaway Authority	-	30
Ports Canada	83	50
Total	366	130

In a number of instances, such as for Petro-Canada, these payments to the government are to continue as part of a long-term dividend policy for profitable Crown corporations.

Other measures will be implemented to improve the government's cash management. For those Crown corporations regarded as "financially dependent", and which receive all or a substantial portion of their funding in the form of appropriations granted by Parliament, zero-balance account banking

arrangements will be instituted to ensure that funds are not advanced earlier than required. This measure will delay cash flows out of the Consolidated Revenue Fund and thereby reduce overall government borrowing requirements. Another measure will be the implementation of better administrative control over the debts owed by Crown corporations to the government.

Other initiatives that have been identified as elements of the government's strategy for cash management were announced by the President of the Treasury Board on March 27, 1985. These measures are designed to increase the size and speed up the flow of receipts, and to take advantage of trade discounts and other incentives when payments are made early.

**(v) Surplus Property Disposal**

The federal government uses some 30 million square metres of building space and 21 million hectares of land. Seventy-five per cent of this property is owned by the federal government. The Auditor General estimates the value of federal government real property holdings at between \$40 and \$60 billion. In the past, there has been little incentive for disposal of property no longer required for federal purposes. This government has already launched a Ministerial Task Force Study on real property management and will move quickly to reduce its real property holdings towards a more commercially justifiable level. Specifically, through disposals, the government intends to generate over \$400 million in revenues over the next two years. This will be in addition to the savings indicated in the November 1984 Economic Statement that have already been announced by the Minister of Public Works. The disposals will also result in operational cost savings which are estimated in the order of \$10 million annually, starting in 1987-88.

**(vi) Increased Cost Recovery**

As noted in the November Economic Statement, the government provides Canadians with many services of a commercial nature, or specifically tailored to particular individuals or groups, for which no fee or only a nominal fee is charged. In a first step to place a fair share of the total cost on those who benefit, the government announced revenue increases of \$193 million for 1985-86. Although some delays have been encountered in realizing these savings, the government intends to pursue additional cost recovery initiatives in 1986-87 and has established an additional target of \$65 million for that year.

Much of the additional revenues will flow from the proposals of the Ministerial Task Force on Program Review in areas such as dry dock and dredging fees, research service fees and fees for grain inspection. As well, commencing in 1986-87, new cost recovery measures in the Department of Communications are expected to generate additional revenues of \$15 million per year. The proposed measures include the recovery of Canadian Radio and Television Commission and related costs of federal regulation of telecommunications companies.

## **B. Improving the Effectiveness of Economic Programs**

### **1. Introduction**

In the *Expenditure and Program Review* released with the November Economic Statement, the President of the Treasury Board announced a number of important measures to reduce and rationalize program expenditures in the economic development area. At that time, the *Agenda for Economic Renewal* indicated the government's intention to review carefully further possible expenditure reductions relating to economic development. It was recognized that some current spending may be doing more to hinder than to help private sector growth and, correspondingly, that further reductions could possibly increase the scope for private sector initiative.

That process of review is now well underway and has already yielded major results. As noted in more detail elsewhere in the budget documents, the Ministerial Task Force on Program Review led by the Deputy Prime Minister has played a central role in the examination of economic programs. In addition, useful discussions on economic programs and policies have been triggered by the government's release of consultation papers in a number of important program areas. Federal and provincial First Ministers have had full discussions of the economic challenges facing Canada and have made important strides in forging the sense of common purpose needed to meet those challenges. The National Economic Conference in March 1985 involved representatives from every segment of Canadian society in a constructive dialogue on Canada's economic future.

These reviews and consultations have helped to shape the expenditure reductions outlined below. The reductions also reflect the over-riding gravity of our fiscal situation. The size of the deficit has made it necessary for the government to seek savings both in those programs that may impede private sector growth and initiative, as well as in those programs that, while valid in themselves, present opportunities for reduced spending without severely compromising effectiveness.

#### **Summary of Savings**

The measures announced in this budget will realize savings of over \$500 million in 1985-86, \$1.5 billion in 1986-87 and savings of almost \$2 billion by 1990-91. These cost savings are in addition to those that resulted from the decisions announced in November 1984. The specific levels of savings over the next two fiscal years and for 1990-91 are outlined by program area in the following table.

Background on the initiatives to be undertaken in each of these program areas is provided in the following sections of this document.

### **2. Agriculture**

In the *Agenda for Economic Renewal*, the government noted its intention to examine its involvement in agriculture to ensure that government policy is directed at maintaining a strong, efficient and competitive agricultural sector. Since that



**Program Savings**

	1985-86	1986-87	1990-91
	(millions of dollars)		
<b>May 1985 budget</b>			
Budgetary savings			
Agriculture	50	50	50
Energy, Mines and Resources	152	933	1,125
Aid	-	50	-
Fisheries and Oceans	-	25	25
Regional Industrial Expansion	100	150	150
Training	78	-	-
Transportation	75	200	600
Sub-total	455	1,408	1,950
Non-budgetary savings	65	74	-
Total program savings	520	1,482	1,950
<b>November 1984 Economic and Fiscal Statement</b>			
Budgetary	2,187	2,061	2,050
Non-budgetary	625	500	500
Sub-total	2,812	2,561	2,550
Total program savings	3,332	4,043	4,500

time, the Ministerial Task Force on Program Review has examined the full range of agricultural programs. This examination has led to an approach to agricultural policy involving a more market-sensitive orientation; improved co-ordination and integration of federal services to the private sector; strengthened federal-provincial co-operation to minimize distortions in production and investment; and the minimization of subsidy measures that do not constitute basic framework programs for the management of economic risks. The review has also led to the adoption of a number of specific program improvements to give effect to these new directions for agricultural policy. Further improvements are under review.

The planned annual expenditure reductions of \$50 million, starting in 1985-86, reflect reductions arising from current fiscal requirements, and will include reductions in grants and contributions and, to the extent necessary, reductions in operating and capital items. The reductions will be made in a manner which ensures equity and fairness among participants in the sector and, at the same time, responsiveness to regional, commodity and market interests.

### 3. Energy

The government has met its promise to reshape the energy sector by modifying the tax system and phasing out costly subsidies. In November 1984, over \$800 million was cut out of planned energy expenditures for 1985-86.

As part of the Western Accord between the federal government and the three producing provinces, the termination of the Petroleum Incentives Program was announced. The program, which provided incentives for oil and gas exploration, will be terminated March 31, 1986 with "grandfathering" provisions. This will result in savings of some \$800 million in 1986-87.

Additional savings, netting a total of \$51 million over the next three years, will be made through a redirection of conservation and renewable energy initiatives to provide increased emphasis on consumer education, and research and technology, while reducing reliance on subsidies. The new approach to these programs will be announced in due course by the Minister of Energy, Mines and Resources.

The government has also assessed the role of its major agent in the nuclear energy field, Atomic Energy of Canada Limited (AECL) and, in particular, the corporation's nuclear research and development (R&D) activities. In light of the fact that the CANDU technology is now recognized as being well established, the federal government has decided to reduce its funding of AECL's R&D program. This reduction will be phased in gradually, over a five-year period, from current annual levels of approximately \$200 million, down to \$100 million by the end of the decade. Research programs on health and safety aspects will, however, continue to be emphasized for the long-term benefit of the Canadian nuclear industry and users of CANDU technology. AECL will explore other possible sources of funds to reduce the impact of lower federal funding of R&D activities. The government believes there are opportunities for increased co-operation between AECL and major users of CANDU technology, such as Ontario Hydro, in areas of mutual interest.

Continued operation of AECL's two heavy water plants on Cape Breton Island can no longer be justified. There are ample supplies of heavy water already on hand and alternative sources are available to cover all foreseeable domestic and export requirements. The operation of both plants has been fully funded by the government since 1981; funding requirements for 1985-86 were projected at \$115 million. Once plant closures have been carried out, it is anticipated that savings will exceed \$100 million annually.

Workers will be provided with generous severance benefits, retraining and relocation assistance and financial and career counselling, together with measures designed to facilitate re-employment. The impact on the affected communities' property tax revenues will also be offset for a period of time. As part of the budget, a special tax credit will be introduced to enhance private sector investment and productive employment on Cape Breton Island. More details are provided in Section I of the *Budget Papers*. In addition, a private sector Advisory Committee will be asked to review development opportunities and advise within a few months on special Cape Breton development measures that may warrant federal support.

Details will be announced shortly on AECL's heavy water plant closures and adjustment plans and on the government's Cape Breton regional development effort, including the approval process for the special tax credit and the Advisory Committee's membership and terms of reference.

#### **4. Aid and Export Financing**

A reduction of \$50 million is being taken from the planned 1986-87 levels of expenditure for Official Development Assistance (ODA) as part of the government's actions to constrain the deficit. Despite this reduction, the planned net ODA cash levels for 1986-87 will be significantly higher than those for 1985-86. As a result, the ODA/GNP ratio that year is also expected to be higher than the 1985-86 level of 0.5 per cent. This reduction does not imply a lessening of the government's commitment to achieve an ODA/GNP ratio of 0.6 per cent by the end of the decade, nor will it impede achievement of that target.

The anticipated non-budgetary requirements of the Export Development Corporation are being reduced by \$65 million in 1985-86 and \$74 million in 1986-87 to reflect current projections of loan disbursement levels.

#### **5. Fisheries**

In November 1984 the government announced reductions of over \$40 million in the 1985-86 expenditures of the Department of Fisheries and Oceans, and the implementation of cost recovery measures designed to yield revenues of \$6.3 million in 1985-86. At the same time, the government undertook to review the complex regulatory framework governing the fisheries sector.

As noted elsewhere in the budget documents, the Ministerial Task Force on Program Review is forming a study team on natural resources programs, including fisheries sector programs, which will consider opportunities for streamlining federal programs and making them more responsive to client needs. A study team on regulatory programs is at present examining the overall federal regulatory framework including that of the fisheries sector.

In the interim, the government's serious fiscal situation makes necessary a further reduction in the planned expenditures of the Department of Fisheries and Oceans, to the extent of \$25 million annually, starting in 1986-87. These reductions will include measures to rationalize financial, developmental and other support mechanisms, as well as services and facilities available to the fisheries and oceans sector.

#### **6. Industry Support**

Last November the decision was taken to reduce the general level of direct assistance to industrial development by \$200 million per year beginning in 1984-85. Further reductions of \$100 million in 1985-86 and \$150 million in 1986-87 are required to meet the serious fiscal situation.

Most of the reductions will be accomplished by reducing planned spending under the Industrial and Regional Development Program and the Defence Industry Productivity Program, and by deferring planned expenditures on other programs. Savings will also be realized with the Shipbuilding Industry Assistance Program as recommended by the Ministerial Task Force on Program Review. In addition, the Task Force's recommendations will result in changes in program design and coverage.

With this approach, existing program commitments can be met and a limited number of new commitments entered into. However, strict prioritization of all new initiatives will be required with the possibility that certain of these will not go forward or be deferred into the 1990s.

## **7. Training**

The Ministerial Task Force on Program Review has examined federal training programs to increase the economic orientation of training and to align federally-funded programs more closely with labour market needs. To improve the effectiveness of its labour adjustment programs and to reduce administration costs, the government has decided to limit funding for general industrial and critical trades skill training by \$78 million in 1985-86. The reduction in funding will not be expected to cause skill shortages since new programs in this field will be introduced this fall. These and other changes to federal training programs will result in better targeting of training on long-term unemployed, more private sector input and harmonization with provincial programs. This direction is consistent with the new Labour Market Strategy developed by the Minister of Employment and Immigration and announced by the Prime Minister at the First Ministers' Conference in Regina. An additional amount of \$900 million for training and job creation has already been announced for 1985-86. The government is also announcing in the budget that it intends to allocate \$900 million to the new labour market development strategy in 1986-87.

## **8. Transportation**

Given the importance of transportation to Canada, the government has been developing a number of initiatives to increase the competitiveness of the transportation industry, to remove obstacles to growth and to improve efficiency, while at the same time recognizing the importance of controlling and reducing direct federal expenditures. One major initiative is to reduce the regulatory burden in transportation, creating a climate for private sector growth and employment. As well, the Minister of Transport has recently tabled amendments to the *Western Grain Transportation Act* that will stabilize freight rates, increase railway accountability and give grain producers a stronger voice. Moreover, the Ministerial Task Force on Program Review is forming a study team to review transportation programs.

It is expected that significant cost savings will be achieved while at the same time maintaining the integrity of the transportation system. In November, savings of almost \$200 million per year were realized from cost recovery and various economy measures in the Department of Transport. In addition, \$93 million was cut from VIA Rail's annual budget. The Minister of Transport will now be moving to achieve further economies in Transport Canada by eliminating unproductive subsidies, rationalizing under-utilized facilities, determining which elements of the transportation system can be operated more efficiently by others, and by requiring users and beneficiaries of the system to pay a fair share of its costs. In addition, the government will pursue the development of a new management structure for the federal airport system in Canada. Options will be presented for consideration this year to provide for a self-sustaining system, incorporating the principle of cross-subsidization of smaller airports, which will allow for the independent operation of local airports. Over all, these measures are expected to save the government \$75 million in 1985-86 and \$100 million in 1986-87, with the annual savings rising to \$400 million by 1990-91.

The government is also undertaking additional measures designed to improve VIA Rail service to passengers while reducing the passenger train company's dependence on government funding. First, legislation will be introduced which will give VIA Rail the authority and responsibility necessary to carry out its operations. Second, VIA Rail will order and put into service new equipment for its long-haul routes. Third, VIA Rail will make further improvements to its marketing, customer services, productivity and punctuality. Through these improvements to its operations and with equitable fare structures, VIA Rail's annual requirements for government assistance will be reduced by the end of the decade to \$400 million from the current \$600 million level. Savings in 1986-87 will amount to \$100 million. As a result of these measures, VIA's mandate to meet the needs of the travelling public will be fulfilled in a businesslike manner. A principle of "use it or lose it" will be introduced with respect to VIA rail service; if planned cost recoveries do not materialize, a potential exists for reductions in levels of service.

The result of all these initiatives will be increased competitiveness in the transportation system, and annual savings in federal transportation expenditures of \$600 million by 1990-91. Although the changes will be significant, safety will not be compromised; adequate consultation with all concerned will be carried out and careful consideration will be given to the needs of those most affected.

## **9. Trade and Development Facility**

The budget establishes within the Canadian International Development Agency (CIDA) a Trade and Development Facility which will assist the Canadian business community in pursuing priority projects in developing countries for which concessional financial assistance may be required. Such a facility was described in the consultation paper on export financing which was released by the Minister of Finance and the Minister for International Trade in January 1985. The government received numerous representations supporting this approach.

Through this new facility CIDA will provide development assistance in conjunction with loans from the Export Development Corporation (EDC) to help competitive Canadian exporters participate in developmentally important projects. The facility will be used to complement CIDA's existing programs aimed at increasing the role of Canada's private sector in developing countries. Up to half of planned growth in Canada's Official Development Assistance above the current level of 0.5 per cent of GNP will be channelled through this facility.

The details of the facility's operating procedures and project selection criteria are being developed and will be made public over the summer.

## **10. Streamlining Special Tariff Programs**

To increase the competitiveness of Canadian manufacturers in foreign and domestic markets, various programs exist to provide manufacturers, regardless of their location in Canada, with tariff relief in given circumstances. For example, components for incorporation into goods being manufactured for export can be imported duty free. Some of these provisions are contained in existing legislation, such as the *Customs Act* and Customs Tariff; others have been implemented by Order in Council under the authority of the *Financial Administration Act* or other legislation. The result is a complex series of provisions which require considerable time and effort for potential users to uncover and then to determine how they can most effectively be applied to their specific interests.

Neither domestic manufacturers nor those trying to attract new investment to their local area are well served by such scattered statutory and regulatory provisions. Many have pointed out the disadvantage which Canadians face in competing for new investment in the international market because other countries have enunciated similar provisions through more visible and streamlined legislative frameworks.

The government intends to introduce legislation at an early date to consolidate the existing provisions which provide tariff relief or authority for tariff relief to the business community. This is in keeping with commitments to make government services easier to use and understand and to respond to needs identified by other governments, particularly that of British Columbia which has urged the adoption of customs procedures which would help to attract new investment. This new legislation will be more easily administered as it will make provision in one statute for many programs currently contained in a number of acts and regulations. Such action should go a long way towards encouraging existing as well as potential manufacturers and processors in Canada to take full advantage of Canada's customs and tariff provisions. In addition, in the competitive international investment marketplace, it will provide an overall framework which all levels of government and the private sector can more readily use to attract new investment.

## **11. Private Participation in Export Financing**

Last January the government released a consultation paper on *Export Financing*. Among the main issues raised was that of having financial institutions take over some or all of the direct lending functions of the EDC. An important question posed was the extent to which using the private financial institutions could contribute to broadening Canada's export base by providing at reasonable cost increased services to exporters or potential exporters, particularly small and medium-sized companies, thereby encouraging increased export activity by Canadian business. Increased involvement of the private sector in activities now carried out by the public sector where possible is an overall government objective. In this connection most other industrialized countries' export financing is delivered entirely by private financial institutions even when government support is necessary, and their banks' national and international networks are used to help firms seek out export opportunities.

The Canadian banks have developed a comprehensive proposal to assume the EDC's direct lending function and bring our export financing system more in line with that of other industrial countries. The government is giving the banks' proposal very careful consideration. The government has also received many representations from exporters expressing satisfaction with the current EDC-based system and urging that any changes in the system indeed result in increased services to exporters without higher costs. The government intends to consult with all interested groups further on this issue over the next few months with a view to reaching a conclusion by autumn. The aim is to find ways of better tapping the expertise and resources of private financial institutions to improve export financing services to Canadian firms.

## **C. Improving the Effectiveness of Social and Cultural Programs**

### **1. Child Benefits**

Since the publication of the government's consultation paper on *Child and Elderly Benefits*, a number of suggestions for change have been put forward by various groups including the Standing Committee on Health, Welfare, and Social Affairs. In response, the government will introduce several changes to child benefits. The changes will ensure greater assistance to families with lower incomes, thus making child benefits more progressive. The universality of family allowances will be preserved and the tax system will continue to recognize the special needs of families with children.

These changes will be phased in as follows.

#### **Taxation Year 1986**

- Family allowances will be increased in future years by the annual increase in the consumer price index (CPI) in excess of three percentage points. This measure will take effect on January 1, 1986. The value of family allowances is currently \$31.27 per child per month.

- The child tax credit, which will be payable in the spring of 1987, will be increased by \$70 per child, from \$384 to \$454.
- The income threshold above which the child tax credit is phased out as income rises (currently frozen at \$26,330) will be set at \$23,500 and will be increased in future years by the annual increase in the CPI in excess of three percentage points.
- Above the income threshold, the child tax credit will continue to decrease by \$5 for every \$100 of net family income.
- The child tax exemption will remain at \$710 per child under age 18 at the end of the year.

#### **Taxation Year 1987**

- The child tax credit, which will be payable in the spring of 1988, will be increased by a further \$35 per child to \$489.
- The child tax exemption will be reduced to \$560 per child, under age 18 at the end of the year.

#### **Taxation Year 1988**

- The child tax credit, which will be payable in the spring of 1989, will be increased by a further \$35 per child to \$524.
- The child tax exemption will be reduced to \$470 per child under age 18 at the end of the year.

#### **Taxation Year 1989 and Subsequent Years**

- The child tax exemption will be further reduced to equal the value of family allowances, after which it will be indexed to the annual increase in the CPI in excess of three percentage points.
- The child tax credit will be indexed to increases in the CPI in excess of three percentage points.

The proposed increase in the child tax credit will provide increased support to low-income families, while benefits for higher-income families will be reduced. This will ensure that current inequities in the distribution of benefits – whereby benefits increase with income over certain income ranges – will be corrected by 1989. This is shown in the following table and graph.

Net federal expenditures will be reduced by approximately \$15 million in fiscal year 1985-86 and \$40 million in 1986-87. Provincial tax revenues will not be affected in 1985-86 and only marginally in 1986-87.

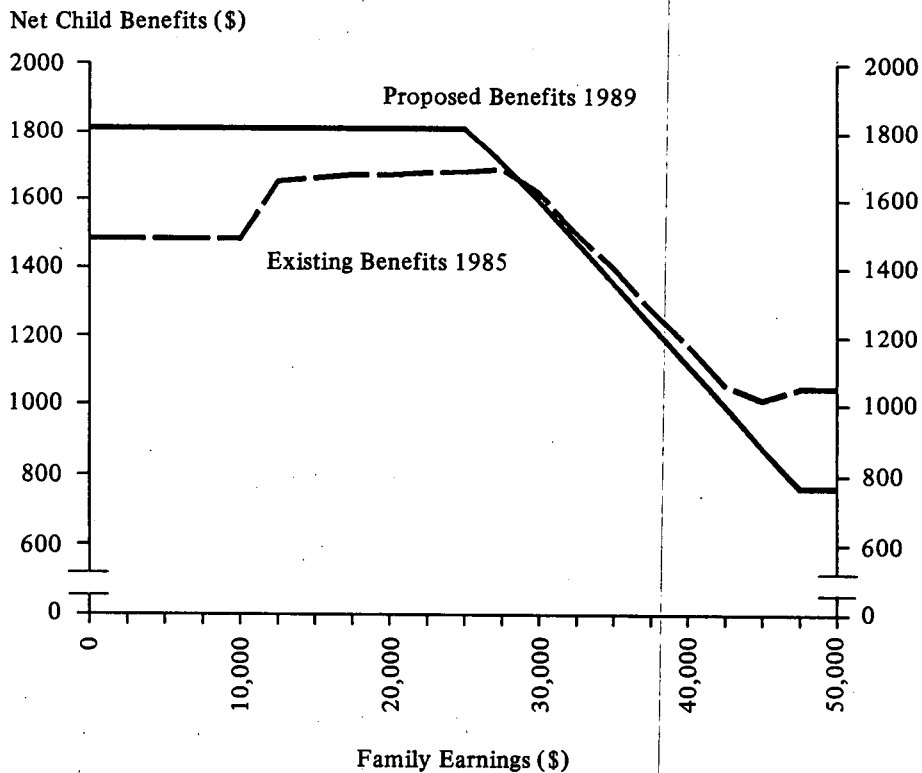


**Net Annual Child Benefits<sup>(1)</sup> for One-Earner Families with Two Children Under Age 18 Residing in Ontario at Selected Income Levels, 1985 to 1989**

Family earnings	Existing 1985	Proposed				
		1986	1987	1988	1989	
			(dollars)			
0	1,484	1,524	1,670	1,740	1,812	
10,000	1,484	1,561	1,681	1,745	1,812	
20,000	1,673	1,711	1,771	1,790	1,812	
30,000	1,621	1,661	1,564	1,584	1,597	
40,000	1,177	1,217	1,104	1,114	1,117	
50,000	1,048	1,051	921	841	764	
60,000	1,048	1,051	921	841	764	

<sup>(1)</sup> Includes family allowances, child tax credit and child tax exemption. The credit appears in the year in which it is received. Benefits are shown in dollars of the year in which they are paid.

**Net Annual Child Benefits in Current Dollars For a One-Earner Couple with Two Children In Ontario Under Existing and Proposed Systems 1985 and 1989**



## **Other Exemptions**

The government will also reduce the exemption for certain dependent persons aged 18 and over. The exemption will not be reduced for dependents who are mentally or physically infirm and the exemption for such persons will be adjusted annually by the increase in the CPI in excess of three percentage points. The exemption for all other dependants aged 18 and over (other than for a spouse or the marital equivalent), currently \$1,420, will remain at that level in 1986 but will be reduced to \$1,200 and \$1,000 in taxation years 1987 and 1988, respectively. Subsequently, the exemption will be equal to twice the amount of the exemption provided to children under age 18. Another modification will involve the rate at which the exemption is phased out when the dependant has income. This rate will be reduced to the same rate as for children under 18, that is, one dollar for every two dollars of income in excess of a threshold amount.

## **2. Pension Plans**

The federal government is announcing amendments to the *Pension Benefits Standards Act* (PBSA) which will be tabled in Parliament shortly to take effect on January 1, 1987.

The PBSA establishes minimum standards for pension plans established by companies in federally-regulated industries such as the banking sector, interprovincial transportation, radio and television broadcasting, telecommunications, and federal Crown corporations. In total, the pension plans of approximately one million Canadians are regulated directly or indirectly by the Act. Some 14,000 pension plans, covering a further three-and-a-half million Canadians are regulated by similar provincial legislation.

The government has consulted widely in developing amendments to the PBSA. There has also been very close co-operation with the provinces to ensure that amendments to pension standards legislation in different jurisdictions are comparable. Federal-provincial co-operation in this area has been excellent and the government is confident that similar provincial legislation will be proposed, where necessary, to ensure a high degree of uniformity in pension plan standards across the country.

### **a) Increased Portability and Better Retirement Benefits**

Private pension arrangements should reflect the mobility of the Canadian workforce. The government will amend the PBSA so that workers acquire pension rights more quickly. Pensions will be more transferable when workers change jobs.

- Employees will be entitled to a retirement benefit, including that portion provided by the employer's contribution, after two years of participation in a plan. This is called "vesting". All employee and employer contributions will be "locked in", once vested, and will not be accessible to the employee until retirement. These provisions will apply only to pensions earned after the legislation becomes effective.

- Vested benefits will be portable and employees will have several choices when leaving an employer before retirement:
  - transferring the entire value of the vested pension to a locked-in RRSP;
  - transferring their vested pension directly to the new employer's plan;
  - leaving the vested pension with their former employers until retirement;
  - transferring their own contributions together with interest to a locked-in RRSP, while leaving the remaining entitlement with their former employers as a deferred benefit to be available on retirement.

To avoid the administrative burden for plan sponsors of maintaining records and providing cheques for small pension amounts, employers will have the right to require employees to transfer their pension funds to a locked-in RRSP, or to the plans of their new employers if the annual pension benefits are below 10 per cent of the Yearly Maximum Pensionable Earnings (YMPE) of the Canada Pension Plan. The YMPE is \$23,400 in 1985.

- Portability of pensions will be facilitated through the increased use of locked-in RRSPs. This savings vehicle differs from regular RRSPs in that it is subject to locking-in and other requirements of pension standards legislation. Funds can normally be drawn upon only after retirement in the form of an annuity. Financial institutions offering RRSPs will be competing for this larger market resulting from the increased flow of funds requiring such a locked-in vehicle. This vehicle will provide employees with the means to transfer their vested pensions when changing employment.
- Minimum employer contributions will be required to ensure that, where workers change jobs or retire, employers contribute at least 50 per cent of the value of the pensions earned. If they have not, employers will be required to make the necessary adjustments. Alternatively, plans could meet this requirement by indexing deferred benefits contractually according to a formula that will be determined after consultation with interested parties. In some plans, employers do not contribute to workers' pensions until after many years of service. Minimum employer contributions will ensure that employers share the cost of their employees' pensions and that short- and long-service workers are treated fairly.
- Plan sponsors will be required to refund employee contributions that are not vested when employees leave their employers. Employers will also be required to pay interest on such refunds which is at least equivalent to that paid on non-chequing savings accounts.

## **b) Greater Access to Pensions**

The government wants to ensure that more workers will have the opportunity to join pension plans. Workers should also have greater flexibility to determine their age of retirement. The following amendments are therefore proposed:

- Plans will now be required to extend eligibility to all full-time and part-time workers:
  - All full-time employees in an occupational group which is covered by a pension plan will be eligible to join the pension plan at any time provided they have at least two years of service with their employer.
  - Part-time workers who have earned at least 35 per cent of the Canada Pension Plan's YMPE in two consecutive years with an employer will be eligible to join pension plans available to full-time workers in the same occupational group. Employers would be permitted to set up separate plans providing equivalent benefits to part-time workers.
- Pension plan members may elect early retirement beginning at age 55. Plans will be able to adjust the benefit of early retirees on an actuarially reduced basis to reflect the longer period over which benefits are paid.

## **c) Improving Pensions For Women**

Women in the workforce will benefit from the government's proposals to improve portability and to provide greater access to pensions. However, the pensions that they earn may be smaller than those earned by men retiring in comparable circumstances.

There are also a number of deficiencies in the current retirement income system which affect spouses of plan members, mostly women, because few pension plans provide for adequate survivor benefits or for credit splitting upon marriage breakdown.

The government is sensitive to these concerns and will therefore introduce a number of pension reform measures which will be of particular benefit to women.

- Survivor pensions will no longer be terminated if the survivor remarries.
- Pension plans will be required to provide benefits to surviving spouses of plan members who are retired at the time of death. The benefit to the survivor will be no less than 60 per cent of the amount payable had both spouses lived.
- The pension plan will be required to transfer the full lump sum value of the pension earned by a plan member who dies prior to retirement to a locked-in RRSP of the surviving spouse. Alternatively, if available, a monthly survivor pension can be chosen by the surviving spouse.

- The value of pension credits and pensions already being paid will be split equally between spouses upon marriage breakdown to reflect the pension credits earned during the period of the marriage, unless the courts or the parties themselves determine otherwise. The split will be determined at the point of marriage breakdown. Marriage breakdown will include a divorce, separation or the dissolution of a common-law relationship.
- In view of the recommendations of the report of the Advisory Committee on Equal Pension Benefits, which was recently made public, the government will require plan sponsors to provide equal, periodic benefits to women and men retiring in identical circumstances. For plans not already meeting this requirement, mainly money-purchase plans, plan sponsors will have the discretion to choose one of the following ways of doing so:
  - using annuity factors which do not differentiate between men and women, i.e., unisex annuity factors;
  - making higher contributions directly for female workers as is currently the case for defined benefit plans; or
  - using any other method approved by the Superintendent of Insurance which would provide equal benefits.

#### **d) Inflation Protection**

The government recognizes the need to maintain the purchasing power of pensions provided by employer-sponsored pension plans. However, there continues to be strong opposition from most provinces and business groups to mandating inflation protection. Further, there is no agreement on a single formula which would be suited to the multiplicity of pension plans. As a consequence, the government favours a voluntary approach and will not be legislating mandatory inflation protection at this time. Indeed, the majority of large pension plans already provide for some form of voluntary inflation adjustment, and the government intends to encourage plans to build upon this approach. Accordingly, all firms under federal jurisdiction, with a special emphasis on Crown corporations, will be encouraged to provide inflation adjustment to pensioners and workers with deferred benefits. These firms will be required to report on their efforts to adjust benefits voluntarily and to identify the source of these funds. Both types of information will be submitted to the Superintendent of Insurance and statistical information will be made public. The government will be monitoring closely the response of plans to this voluntary approach and will discuss the results with provinces, business and other interest groups.

#### **e) Information Disclosure and Employee Participation**

To increase the information available to pension plan members:

- The government will require annual disclosure of information to members of plans and their spouses on benefits earned by plan members

and their accumulated contributions. This will include the plan's degree of funding. Employees will also have access to other actuarial and financial information on their plans which will have to be readily available to the authorized agents of the plan member or the spouse. Financial data also will have to be made available to bargaining agents.

- The PBSA will require representation by plan members on management committees if requested by a majority of members. To prevent an excessive burden on small employers, this provision will apply only to enterprises above a minimum size.

### **3. Tax Incentives for Retirement Saving**

The budget proposes to reform the system of tax assistance for retirement saving. The changes are designed to provide:

- fairer access to tax assistance for employees in defined benefit plans and others saving through different types of retirement savings plans;
- greater flexibility in the timing of retirement saving contributions; and
- increased incentives for profit-sharing.

The changes reflect the results of extensive consultations based on the discussion paper *Improved Tax Assistance for Retirement Saving* released with the February 1984 budget. The consultations indicated wide support for the reform goals of improved fairness and flexibility outlined in the discussion paper. However, concerns were raised that the earlier proposals implied a major restructuring of the current limits system which would require extensive reporting of accrued pensions on an annual basis by plan sponsors and tax filers. The budget proposals would overcome these concerns.

The new system will result in an expansion of the Canadian system of tax assistance for private pension arrangements, both in terms of the number of Canadians covered and the amount of retirement income funded. The government has been mindful of the need to limit the complexity and reporting requirements for employers and employees in the design of the new system. The changes are phased in over the next five years in recognition of the current fiscal constraints on the government.

#### **a) Fairer Access to Tax-Assisted Savings**

Currently, tax-assisted retirement savings can be made through RRSPs or through employer-sponsored registered pension plans (RPPs) or DPSPs. These plans fall into two categories – defined benefit and money purchase. A defined benefit plan promises a certain level of pension, whereas a money purchase plan provides whatever benefit the accumulated contributions will buy. RRSPs and DPSPs are money purchase plans while RPPs can be of either type. The great majority of RPP members belong to defined benefit plans.

The following table shows the considerable disparity which exists at the present time in the amount of tax-deductible contributions that can be made to these different types of plans and the benefits that can be funded.

**Effective Limits on Different Types of Plans Under the Current System**

Plan	Effective maximum annual contribution (employee and employer)	Effective maximum annual retirement pension after 35 years
	(dollars)	
RRSP only	5,500	21,000
Money purchase RPP	7,000	27,000
Defined benefit RPP	15,500 <sup>(1)</sup>	60,000

<sup>(1)</sup> The \$15,500 is not a statutory amount but represents the annual contribution required, under reasonable actuarial assumptions, to fund the maximum allowable pension of \$60,025 under a defined benefit RPP.

One of the primary objectives of the budget is to eliminate this disparity in access to tax assistance for retirement saving. This is achieved by increasing to \$15,500 the limit on tax-deductible contributions for individuals participating in money-purchase arrangements, including those employees and the self-employed who save only through RRSPs. The increase will be phased in over the next five years.

The maximum pension limit under a defined benefit plan will remain through 1990 at its current level of 2 per cent of earnings for each year of service to a maximum of \$60,025. A pension of \$60,025 represents 70 per cent of earnings for someone earning \$85,750 a year. By 1990, this earnings level will approximate three times the average wage and will cover some 98 per cent of the labour force.

Once the limits for different types of plans are harmonized, they will all be indexed by the growth in average wages beginning in 1991.

There will be two changes made for defined benefit plan members that will come into effect in 1986. First, under the existing provisions, individuals are not allowed to deduct contributions to an employer-sponsored plan in excess of \$3,500 even where the excess is required to fund pensions up to the allowable limit. There is no longer any need for this restriction and the budget proposes to increase the limit on employee contributions to defined benefit plans to \$15,500.

Second, defined benefit plan members can now make annual contributions of \$3,500 to an RRSP but this amount is reduced by their contributions to employer-sponsored plans. If they are being provided the maximum allowable pension benefits through the employer-sponsored plan, there is no need to provide them an additional deduction for RRSP contributions. However, in most cases, the benefits provided by employer-sponsored plans are below the allowable limits.

In recognition of this, the budget proposes to allow defined-benefit plan members to make additional tax-deductible RRSP contributions of up to \$2,000 a year regardless of the amount of contributions to the employer plan.

In addition to the overall dollar limits, retirement savings contributions are subject to the general limit of 20 per cent of employee earnings. Subject to transitional arrangements, this limit will be reduced to 18 per cent of earnings under the new system.

#### **b) Summary of New RPP/RRSP Contribution Limits**

##### **Individuals Who Save Through RRSPs Only**

- RRSP contributions not exceeding 18 per cent of earnings become deductible up to a maximum of \$7,500 in 1986, \$9,500 in 1987, \$11,500 in 1988, \$13,500 in 1989, and \$15,500 in 1990.

##### **Members of Money Purchase RPPs**

- Combined employer and employee contributions not exceeding 18 per cent of earnings to RPPs and RRSPs become deductible up to a maximum of \$7,500 in 1986, \$9,500 in 1987, \$11,500 in 1988, \$13,500 in 1989, and \$15,500 in 1990.

##### **Members of Defined Benefit RPPs**

- Employee contributions to defined benefit RPPs become deductible up to a maximum of \$7,500 in 1986, \$9,500 in 1987, \$11,500 in 1988, \$13,500 in 1989, and \$15,500 in 1990.
- Employee RRSP contributions not exceeding 18 per cent of earnings become deductible to a maximum of \$2,000.

##### **All Individuals**

- Carry-forward of unused RRSP contributions for up to seven years, effective from 1986.
- Indexing of maximum contribution and pension benefit limits to the average wage, starting in 1991.

#### **c) More Flexibility in Saving**

The new system of retirement tax assistance also provides more flexibility for individuals in timing their saving for retirement. Under the current system, an individual who does not make the maximum RRSP contribution permitted in a year loses that opportunity for tax assistance. The new rules will permit an unused



RRSP deduction entitlement to be carried forward for use in the following seven years. These catch-up contributions will be allowed in addition to any regular RRSP contribution in respect of the current year.

**d) Increased Incentives For Profit-Sharing**

In the February 1984 budget, a new tax incentive was proposed to encourage employer-employee profit-sharing arrangements in the form of a registered employee profit participation plan (REPPP). During post-budget consultations, significant concerns were raised about this proposal by labour and management groups alike. They expressed a preference for strengthening existing deferred profit-sharing plan (DPSP) provisions which provide considerable flexibility in the design of profit-sharing arrangements. In light of this response, the government does not plan to proceed with the REPPP proposal. Instead, the budget proposes to increase the tax-deductible contribution limits for DPSPs from \$3,500 to one-half of the maximum dollar limit for money purchase pension plans (\$7,750 in 1990). Changes are also proposed regarding the vesting of DPSP contributions and the investment of DPSP funds in employer shares.

Further details of the operation of the new system are provided in the material that follows.

**e) Further Technical Details of the New System**

- (i) **Combinations of Employer-Sponsored Plans:** It is increasingly common for employers to provide retirement benefits both in money purchase and defined benefit form, either within the same plan or through a combination of plans. The combination of a DPSP with a defined benefit RPP is a typical example. By means of a new process of plan registration, these arrangements will be accommodated in a manner which provides a fair application of the new limits on tax-assisted saving. Such plans, or combinations of plans, will be accepted for registration provided that the total value of benefits accruing to an individual plan member in a year does not exceed the overall limits.

For example, an employer whose defined benefit RPP has an effective benefit rate of 1.5 per cent of earnings (three-quarters of the 2 per cent defined benefit limit) could also set up a DPSP with contributions of up to 4.5 per cent of earnings (one-quarter of the 18-per-cent money purchase contribution limit). In determining the effective defined benefit rate as a fraction of the 2-per-cent limit, various characteristics of the plan will be taken into account. These include integration with the Canada or Quebec Pension Plan and the extent of automatic indexation and survivors' benefits. Contributions to an employer-sponsored money purchase plan will reduce the RRSP contribution room available under the \$2,000 limit for defined benefit plan members.

- (ii) **Increased Flexibility for RRSP Contributions:** Under the present system, members of employer-sponsored pension plans can often obtain increased pension coverage for prior years by means of upgrading benefits or extending credit for additional years of past service. No similar provisions exist for RRSPs.

To provide increased flexibility in the timing of voluntary retirement savings, the budget proposes to permit the carry-forward of unused **money purchase** contribution room for a period of seven years. This will permit a carry-forward of up to \$2,000 per year for defined benefit plan members and up to \$15,500 per year (by 1990) for those who do not belong to defined benefit plans. This simple system responds to one of the major concerns expressed about the February 1984 proposals, which was that they required a complex system of measuring and reporting pension accruals. A carry-forward provision applying only to money purchase plans also reflects the fact that members of defined benefit plans already have opportunities to upgrade prior years' pension credits. Carry-forward contributions will be deductible beginning in 1987, based on contribution room unused in the 1986 taxation year.

- (iii) **Deferred Profit-Sharing Plans:** The scope for profit-sharing arrangements will be expanded by an increase in the limit on deductible contributions to DPSPs from the current level of \$3,500. Once fully phased in, the new DPSP limit will be 18 per cent of earnings to a dollar maximum of \$7,750 or half the overall limit of \$15,500. DPSP contributions will reduce the contributions that can be made to other plans. Thus, for a DPSP member who also belongs to a money purchase RPP and who also saves through an RRSP, the total contribution to the three plans cannot exceed 18 per cent of earnings to the dollar maximum of \$15,500 (in 1990).

In view of this expansion of the potential role of DPSPs as part of employer-sponsored retirement saving arrangements, DPSPs will be required to meet certain new conditions beginning in 1986. First, immediate vesting of new DPSP contributions will be required. Second, the proportion of new contributions in respect of an employee which can be invested in shares of the employer will be limited to the greater of \$3,500 or one-half the amount of the contribution. Third, an existing provision which allows the transfer of shares to a plan member at the deemed value of their cost to the plan will be modified. For shares of the employer company, the income inclusion will be the cost base of the shares plus one-half of the gain in value to the date of withdrawal. For other shares, the full value of the shares received from the plan will be included in the taxable income of the recipient. As a result, all benefits received from a DPSP will become taxable as ordinary income with the exception of the accumulated capital gain on employer shares transferred to the plan member. One-half of this gain will be taxable. This tax treatment ensures greater uniformity in the rules for DPSPs and other types of plans while maintaining an incentive for investment in employer shares through DPSPs.

- (iv) **Percentage Limit on Contributions:** Contributions to money purchase plans, including RRSPs, will be limited to 18 per cent of earnings. For an employer-sponsored RPP or DPSP, the 18-per-cent limit will apply to total remuneration in that employment. For RRSP contributions, the limit will be 18 per cent of pensionable earnings less total contributions to employer-sponsored plans. As a transitional measure applying in 1986 and 1987, individuals who do not belong to defined benefit pension plans will be allowed to contribute to money purchase plans up to the greater of the current limit of 20 per cent of earnings to \$3,500 or \$5,500 (whichever applies) or the new limit.
- (v) **Definition of Pensionable Earnings:** As under the current system, separate earnings definitions are required to determine benefits and deductible contributions to employer-sponsored plans and to RRSPs. The contribution or pension benefit limits under an employer-sponsored plan will continue to be based on remuneration paid by the employer, net of employer contributions to employee benefit plans and defined benefit RPPs.

The limits on RRSP contributions are now based on earned income as defined in the *Income Tax Act*. This definition will be modified somewhat to bring it into line with the concept of earnings that cease upon retirement and need to be replaced by pension income. The new definition will have the following components:

- income from all offices or employments before the deduction of contributions to the Unemployment Insurance Plan, the Canada and Quebec Pension Plans and RPPs, but net of all expenses or losses;
  - income from all businesses carried on either alone or as a partner actively engaged in the business, net of any losses during the year;
  - royalties in respect of a work or invention of which the tax filer was the author or inventor;
  - net research grants;
  - registered supplementary unemployment insurance benefits;
  - amounts received as alimony or maintenance; amounts paid as alimony or maintenance will be deducted in determining earned income.
- (vi) **Past Service Credits and Benefit Upgrades:** Retroactive benefits under defined benefit RPPs fall into one of two classes: (i) the provision of credits for additional periods of service, or (ii) upgrades of benefits for those years when the employee was a member of the plan. As an employee can make RRSP contributions up to the money purchase limit of \$15,500 while not a plan member, permitting the credit of additional years of past service under a defined benefit plan could result

in the doubling up of deductible retirement saving contributions under the money purchase and defined benefit limits. To prevent this doubling up of tax benefits, credits for additional periods of past service under defined benefit plans will be compared with the individual's available contribution room under the seven-year carry-forward to determine the extent of any excess contribution. As a consequence, the purchase of past service in respect of 1986 and later years will be limited to a seven-year period. This will also provide members of defined benefit and money purchase plans with a comparable ability to upgrade prior-year pension earnings.

The upgrading of defined benefits for years of service when the employee was a plan member does not present the potential of doubling up tax assistance under the new system. Accordingly, such upgrades will be accommodated under the new rules without any time limits or special reporting.

- (vii) **Excess Contributions:** Under current law, excess contributions to DPSPs and RRSPs are not deductible. Excess amounts above a threshold of \$5,500 are subject to a penalty tax of 1 per cent per month and to full taxation upon withdrawal.

Under the budget proposals, the 1 per cent per month tax on excess contributions will be maintained, but withdrawals of non-deducted excess contributions will be permitted tax-free.

- (viii) **Transfers of Pension Income to an RRSP:** As under the current system, the tax-free transfer of pension income into an RRSP can permit a build-up of future pension benefits in excess of the limit on tax-assisted pensions. Accordingly, it is proposed that tax-free pension transfers will be permitted only up to the amount of an individual's unused contribution room under the new system. This provision will apply to the transfer of Canada or Quebec Pension Plan and Old Age Security benefits as well as to benefits from RPPs. To allow transitional relief to individuals now retired or close to retirement, this change will not come into effect until January 1, 1990.
- (ix) **Transfers of Retiring Allowances to an RRSP:** The current law provides for a tax-free transfer of retiring allowances into an RRSP of up to \$2,000 for each year in which the employee was covered by an RPP and \$3,500 for each year of service with no pension coverage. As the new system will provide comparable deduction limits to all employees regardless of pension plan coverage, this distinction is no longer necessary. The existing limits on tax-free transfers of retiring allowances will therefore be replaced, for 1986 and subsequent years, by a single limit of \$2,000 per year of service. For service prior to 1986, the current limits will continue.
- (x) **Maturation of RRSPs Prior to Age 60:** Under existing rules, RRSPs can be matured, in the form of annuities or registered retirement income

funds (RRIFs), between the ages of 60 and 71. In order to assist those who retire prior to age 60, the minimum age restriction on the maturation of RRSPs will be removed effective January 1, 1986.

- (xi) **Variable Rate RRSP Annuities:** A number of RRSPs provide annuities on maturity that allow the amount of the payment to vary in accordance with changes in a generally quoted market interest rate. An amendment is proposed that would expressly authorize annuities under an RRSP that are payable on this basis. This will provide retired Canadians with greater flexibility in the purchase of annuities with their RRSP funds. The amendment is effective after 1981 to ensure that those existing plans that provide for such annuities are not subject to de-registration.
- (xii) **Employer RRSP Contributions:** In the February 1984 discussion paper, the creation of a new money purchase vehicle called a registered pension account (RPA) was proposed. Its purpose was to accept employer and employee contributions which would have been locked in to retirement. It is now evident that the creation of a new vehicle is unnecessary since RRSPs can be used to achieve the same ends. Employers already contribute to employee RRSPs using group-RRSP arrangements, and these plans can contain the condition that the contributions be locked in. In the case of funds transferred to an RRSP from an RPP, the lock-in of the funds to retirement is now required by some provincial Pension Benefits Acts and will be required under the federal *Pension Benefits Standards Act*. Given the complexity involved in the creation of a new registered savings vehicle and the fact that RRSP funds can be locked in, the creation of an RPA is no longer proposed.
- (xiii) **Other Issues:** The government continues to be concerned about the possibility of certain groups of employees being able to obtain additional, and potentially unlimited, tax deferral advantages through an employee benefit plan.

In addition there is a concern about the application of the limits to pension plans. The maximum pension rules are contained only in a Revenue Canada Information Circular, and over the years their application to various pension plans has become increasingly uneven. Difficulties in applying a consistent set of limits have been compounded by the fact that the penalty of plan de-registration is very severe in relation to infractions involving only a few plan members.

Both of these matters remain under active review.

#### **4. Assistance for the Disabled**

A deduction from taxable income – \$2,590 in 1985 – is allowed for a disabled person, currently defined as a person who is blind at any time in the year or confined to a bed or wheelchair for a substantial period of time each day. This definition does not cover many severely disabling conditions which do not result in confinement to a bed or wheelchair.

A new definition, applicable for the 1986 and subsequent taxation years, to be administered by medical experts in the Department of National Health and Welfare, has been developed which will include all severely disabled Canadians. It will cover persons with disabling conditions such as blindness, severe cardio-respiratory failure, mental retardation or mental illness, profound bilateral deafness, and functional impairment of the neuro- or musculo-skeletal systems, who also deserve tax assistance. Those administering the general medical definition will assess eligibility by evaluating information provided by the disabled person (or by his or her representative). If the effect of the disability is to markedly restrict the person in activities of daily living and if the disability has lasted or can be expected to last for a continuous period of at least 12 months, the person will be issued a disability certificate, and will be eligible for the tax deduction. The new definition is compatible with the goal of independent living for disabled persons set out in the Report of the Special Parliamentary Committee on the Disabled and Handicapped.

About 185,000 people are expected to benefit under the broader definition, a substantial increase over the 65,000 current claimants.

## **5. Assistance for Artists**

The budget proposes two significant tax measures of assistance to artists and also announces formation of a Task Force on the Funding of the Arts. The tax measures respond to concerns raised in the June 1984 report of the Parliamentary Sub-Committee on the Taxation of Visual and Performing Artists and Writers. Many of the report's recommendations that involve tax administration practices have already been addressed in changes announced by the Minister of National Revenue. The two new tax measures both take effect beginning with the 1985 taxation year.

### **a) Valuation of Artists' Inventories**

The budget proposes tax relief for visual artists through a change in the method of valuing their supplies, work-in-progress and finished works of art. Artists will be allowed to exclude the value of inventory in computing income instead of having to include the cost or fair market value of such inventory. This change will simplify the tax affairs of artists and allow them to write off the costs involved in a work of art in the year they are incurred, rather than waiting until the work is sold. This change recognizes artists' problems in valuing their works of art on hand, attributing costs to particular works, and carrying inventories over long periods of time.

The new provision would apply to an "artistic business", defined as the business of an individual artist in creating paintings, prints, etchings, drawings, sculptures or similar works of art, other than the business of reproducing such works. In the case of prints, a series of original prints would qualify for the new inventory treatment whereas reproductions of those prints or of other original works would not.

## **b) Charitable Donations from Artists' Inventories**

Another budget proposal removes an obstacle to artists donating their works of art to charities, public art galleries and other public institutions. The existing law requires the artist to include the fair market value of such donations in income for tax purposes, with the same amount qualifying as a charitable donation. This treatment can pose difficulties for artists since the deduction for most donations is limited to 20 per cent of income in the year. The proposed change would allow an artist to value a gift from inventory at any amount not exceeding its fair market value. This amount will be used in determining the amount of the artist's income and the amount that qualifies as a charitable donation.

## **c) Task Force on the Funding of the Arts**

This task force, whose membership will be drawn from the private sector, is being commissioned by both the Minister of Communications and the Minister of Finance. Its mandate will be to inquire into how the arts sector in Canada can be more effectively funded.

The arts sector is recognized as a vital part of Canada's cultural identity and as an important industry in terms of employment opportunities and potential economic growth. Its continuing vitality, however, depends in part on the availability of adequate funding from sources including earned revenues, private donations and government grants. The federal government has played a major role in supporting the arts through its various cultural agencies and through tax incentive measures. While this role will continue, the task force will be asked to examine ways of increasing the overall level of funding for the arts and of encouraging more financial support from the private sector. To this end, the task force will review the balance among existing sources of funds for the arts in Canada, identify factors affecting the success of private and public funding efforts, including support given by provincial governments, and study international experiences for new approaches. In particular, the task force will examine the impact of existing measures, including tax incentives, on the funding of the arts sector and will make recommendations for improvement to the Ministers of Finance and Communications.

Further details on the members and terms of reference of the task force will be released shortly by the Ministers of Finance and Communications.

## **6. Registered Charities**

The budget makes two changes of importance to charities.

One budget proposal will introduce a relieving measure to clarify that registered charities are allowed to engage in non-partisan political activities that are ancillary and incidental to their charitable purposes. This amendment will take effect for 1985 and subsequent taxation years. At present, the *Income Tax Act* requires all of the resources of a charitable organization to be devoted to

charitable activities carried on by the organization itself, and a charity that engages in political activities risks losing its registered tax-exempt status.

The proposed change recognizes that ancillary and incidental advocacy activities in support of its charitable goals are an appropriate use of a charity's resources. These include activities such as advertising, rental of facilities or mailings to influence public opinion towards the organization's views on public policy matters related to its charitable purposes. However, activities of a purely partisan nature such as supporting or opposing a political party or candidate would not be permitted.

Another budget proposal will facilitate the donation to charities of intangible capital property such as shares. The existing special rule that currently applies to charitable gifts of tangible property will be extended to intangible property. It will allow donors of such property after 1984 to use an amount less than fair market value as both the proceeds of disposition of the property and the amount of the charitable donation for tax purposes. An amount less than the cost of the property may not be used. In the case of shares and other assets that have appreciated in value, this will allow a taxpayer to reduce any capital gain that will be realized as a result of the gift.

## **D. Improving the Fairness of the Tax System**

### **1. Minimum Tax on Individuals**

The budget announces the government's intention to introduce a minimum tax at the personal level effective January 1, 1986. The measure will have the effect of increasing the tax liability of those high-income individuals who use the tax incentives provided by current law to structure their affairs so as to pay little or no tax. This initiative will thus enhance the fairness of the tax system.

The discussion paper *A Minimum Tax for Canada* describes three options for a minimum tax structure: (i) an alternative minimum tax; (ii) an add-on minimum tax; and (iii) a limit on tax preferences. While all three approaches have the effect of limiting the amounts of income that can be sheltered from tax, they differ in their relationship to the regular tax system and the manner in which the tax liability is computed.

An alternative minimum tax (AMT) establishes an alternative measure of income and tax that disallows a specified list of tax exemptions, deductions and credits that are allowed for regular tax purposes. A basic exemption from this expanded tax base is provided and tax is computed on the resulting amount at a special AMT tax rate. The taxpayer pays either the AMT liability or the regular tax liability, whichever is larger.

An add-on minimum tax imposes an additional tax on the amount of specified tax exemptions and deductions that, in total, exceed a stated threshold amount. The excess amount is subject to a flat-rate tax that is added to the regular income tax payable to determine total tax liability.



Under a limit on tax preferences approach, the deductibility of specified tax exemptions and deductions is limited, in total, to a set portion of a taxpayer's income. Tax credits and deductions in excess of this proportion are included in taxable income and thus are taxed at the taxpayer's regular marginal tax rate. These excess amounts may be carried forward to future years.

For each minimum tax approach the discussion paper identifies the significant policy and technical considerations that arise and suggests ways in which these may be addressed. One of the major issues raised is which tax exemptions, deductions and tax credits should be subject to the minimum tax. The paper also explores alternative approaches for provincial participation in the measure and highlights the need for federal-provincial harmonization. Finally, the distributional and revenue effects of the three approaches are simulated for various design options. The design of the tax, as well as its scope and exemption level, greatly affects the number of persons affected, the impact on tax system complexity, the effect on incentives and the revenues from the tax.

Under any approach some high-income people will continue to appear to be non-taxable in the statistics, since not all tax deductions or tax credits will necessarily be subject to the tax.

The government intends to undertake extensive consultations before any specific minimum tax measure is implemented.

## **2. Investment Tax Credit**

The budget proposes several changes to the investment tax credit: to reduce the amount of credit where the taxpayer receives reimbursement or assistance on the investment from governments or from other taxpayers; to limit the availability of investment tax credits on a change of control and the resulting trading of unused tax credits; and to redefine the type of equity issue that can be used to transfer unused investment tax credits to outside investors.

### **a) Investment Tax Credit and Government Grants**

The investment tax credit now applies at rates of between 7 and 50 per cent of the cost of eligible investment in manufacturing, R&D, transportation and construction equipment and primary industry. The rate of credit varies, depending on the region where the investment is made. The budget proposes that the investment tax credit be based on the cost of eligible investments net of any government assistance or reimbursement which the taxpayer has received or is entitled to receive. This will ensure that an investment tax credit will be based on the taxpayer's actual costs. It will avoid the undesirable stacking of benefits from grants and tax incentives that can result under the existing system. This change is consistent with the basic thrust of the November 1984 Economic Statement, and with the recommendations of the Ministerial Task Force on Program Review, chaired by the Deputy Prime Minister, which expressed concern over the undue

stacking of benefits. This change will also apply to any reimbursement or inducement payments with respect to the investment that the taxpayer receives from another taxpayer.

**b) Investment Tax Credit – Change of Control**

The *Income Tax Act* provides for a three-year carry-back and a seven-year carry-forward of unused investment tax credits earned in a year. This is identical to the carry-over for business losses. The budget proposes to restrict this carry-over of unused investment tax credits following a change in control of a corporation in a manner similar to the corresponding restriction on the carry-over of business losses. This change will limit trading in unused investment tax credits as a pure financing mechanism.

Where control of a corporation changes, investment tax credits earned before the change may be carried forward to a subsequent year only if the business in which the investment tax credits were earned was carried on by the corporation in that subsequent year. Such unused investment tax credits may only be deducted from the tax payable by the corporation on the income from that or any similar business. Similarly, investment tax credits earned after the change in control may only be carried back to a year preceding the change if the business in respect of which the credits were earned was carried on by the corporation throughout the preceding year. In this case, such unused investment tax credits may only be deducted from the tax payable by the corporation on the income from that or any similar business.

**c) Share-Purchase Tax Credit**

The share-purchase tax credit provides a mechanism whereby a corporation can, in the course of issuing new equity to investors before 1987, transfer investment tax credits to the investors. The type of equity share which qualifies for this treatment is currently defined in the *Income Tax Act*. This definition will be moved from the Act to the Income Tax Regulations.

It is also proposed that this definition be substantially modified. The current definition prohibits a qualifying share from being subject to a maximum limit on the amount of dividends paid or the amount to be paid in respect of the share on a dissolution of the corporation. This limitation will be extended to preclude a fixed minimum dividend or dissolution entitlement. The new definition will prohibit the use of guarantees, loans, dividends, purchases of shares of other corporations or any other arrangements which are designed to immediately return, or guarantee the return of, a significant portion of the issue price of the share to the investor. This change will disqualify shares where the investor is not at risk. Shares will not fail to qualify because of an arrangement to resell them to a person at arm's length with the issuing corporation provided that the issuing corporation does not directly or indirectly assist the purchaser financially with the acquisition of the shares.

Share-purchase tax credits will continue to be available on shares issued after May 22, 1985 that qualify under the existing definition, if they are issued before 1986 under the terms of an agreement in writing entered into before May 23, 1985. Otherwise, for shares issued after May 22, 1985, such tax credits will only be available on shares that qualify under the new definition.

The details of the proposed changes are set out in draft Income Tax Regulations released with the budget.

### **3. Tax Shelters**

The Ministers of Finance and of National Revenue, in a joint statement released on October 25, 1984, indicated that the government was concerned with the proliferation of transactions designed primarily to provide income tax shelters to investors – in effect, selling tax deductions and credits. Apart from the significant cost these arrangements impose on all Canadian taxpayers, their nature tends to undermine confidence in the integrity of the income tax system. Accordingly, it was announced at that time that advance tax rulings would not be made available by Revenue Canada in respect of limited partnerships and other such arrangements, in an effort to make the use of these tax shelters less attractive to investors.

Recently there have been a number of transactions designed primarily to provide income tax shelters to taxpayers investing in businesses which provide recreational and other services through the use of yachts, recreational vehicles, hotels, nursing homes and other similar property. While these industries are important elements of the economy and deserve the support of Canadians, this support should not be effected through tax shelter arrangements.

Accordingly, the budget proposes that the Income Tax Regulations be amended so that individuals will no longer be able to shelter other income with losses created by capital cost allowance from such property used in businesses that offer services combined with the use of the property.

The new rules will not apply if the investors are individuals who are personally active in the day-to-day operation of the business. Capital cost allowances that may be claimed by a partnership in such a business will also be restricted unless those partners who are personally active in the business of the partnership are entitled to share in at least two-thirds of the income and loss of the partnership for the year.

These new regulations will take effect beginning with the 1986 taxation year and will apply to property acquired after May 22, 1985 unless the property is acquired before 1986 pursuant to a written agreement entered into before May 23, 1985. A special transitional rule will apply to remove from the ambit of the new regulations buildings acquired before 1987 pursuant to a written agreement entered into before May 23, 1985, provided construction proceeds without undue delay.

In addition, as referred to in the *Corporate Income Tax System* paper, the government is continuing its review of the *Income Tax Act* provisions governing the use and transfer of losses, deductions and tax credits. Until the review of limited partnership and other similar tax shelter arrangements is completed, advance tax rulings will continue to be unavailable for these transactions.

#### **4. Income Splitting**

The *Income Tax Act* currently provides rules intended to prevent a taxpayer from splitting his or her income among family members to reduce the total amount of tax payable. For example, where an income-earning security is transferred by a taxpayer to a spouse or minor child, the income thereon will be attributed to the taxpayer so that the taxpayer, rather than the family member to whom the security was transferred, pays tax on the income. However, in interpreting the term "transfer" in the context of the income attribution rules, the courts have concluded that a loan is not a transfer. Consequently, taxpayers could avoid the application of these rules by making a low-interest or interest-free loan to a spouse or child. This could result in a significant tax reduction depending on the tax bracket of the spouse or child.

The budget proposes to extend the income attribution rules to the income from property acquired from the proceeds of a loan outstanding on May 22, 1985, or made after that date. The income to be attributed in a year will be net of any interest paid on the loan in the year.

These rules will not apply to attributed income on property acquired from funds loaned under a term loan made before May 23, 1985 if the loan is repaid on or before the later of December 31, 1985 or the date the loan matures. Property acquired from funds provided before the budget date under demand loans will not be subject to the new rules if the loan is repaid before 1988. Where such existing loans are not repaid within these time limits, there will be attribution of income from that time.

### **E. Improving the Effectiveness of the Tax System**

#### **1. Income Tax Investigation and Enforcement Powers**

The budget proposes a number of changes dealing with Revenue Canada's powers to audit and examine taxpayers' books and records, including its powers of search and seizure. The legislation will define clear limits on the use of those powers. The proposals are in response to a number of recent court decisions on the validity of the existing provisions and to the standards established by the Canadian Charter of Rights and Freedoms. Several of these proposals also reflect concerns raised by various groups including the Joint Committee on Taxation of the Canadian Institute of Chartered Accountants and the Canadian Bar Association, the Progressive Conservative Task Force on Revenue Canada and the Law Reform Commission.

It is proposed to remove the existing provision allowing Revenue Canada officials to seize and retain evidence of tax violations found during an audit or examination. In addition, the power to enter and conduct a tax audit or examination in a private dwelling will be made subject to prior judicial authorization, in cases where the occupant does not consent to the entry. A further change will allow Revenue Canada to obtain prior judicial authorization rather than require a regulation, in order to obtain information from third parties about the business dealings of taxpayers who are not identified by name. Before such authorization is granted, Revenue Canada will have to satisfy a judge that the demand was made for the purpose of verifying compliance with the *Income Tax Act*, that there is reason to believe that one or more persons have failed or will fail to provide the information, and that the information was not more readily available by other means.

New standards will be introduced to govern the use of a search and seizure warrant. Such a warrant will be issued only by a judge of a superior court. To obtain a warrant, Revenue Canada will be required to show it has reasonable grounds for believing that evidence of a particular offence might be found in a particular place, and the warrant would have to specify the place to be searched, the offence and the alleged offender.

The power to search and seize will be limited to evidence of the offence alleged in the warrant, except to the extent that evidence of another offence falls within the plain view of Revenue Canada officials in the course of the search.

These proposals will become effective upon Royal Assent to the enacting legislation and will also apply to the *Petroleum and Gas Revenue Tax Act*. Similar changes will be made to Revenue Canada's corresponding administrative powers under the Canada Pension Plan and the *Unemployment Insurance Act, 1971*.

## **2. Interest on Payments and Refunds**

The budget proposes that interest will be paid on late payments and on refunds of penalties assessed under the *Income Tax Act*. In addition, compound interest, rather than simple interest, will be charged on late payments of income tax, interest and penalties and will be paid on refunds to taxpayers.

Under the existing law, interest is calculated using a prescribed rate determined every three months based on short-term Treasury bill rates. This rate is currently 10 per cent. Effective on a date to be fixed by proclamation after Royal Assent to the enacting legislation, interest due will be compounded on a quarterly basis.

## **3. Source Deductions**

The budget proposes to strengthen Revenue Canada's ability to recover amounts owed by persons who fail to remit income tax deductions and employee contributions to the Canada Pension Plan and to unemployment insurance that

they are required to make on behalf of employees and other persons. Revenue Canada's practice is to give the employees credit for tax deductions recorded in the employer's pay records and to seek recovery of the funds from the employer, very often by garnishment of his accounts receivable. However, recent court cases have weakened the effectiveness of these procedures where secured creditors have an interest in the accounts receivable.

Since these amounts are held in trust and represent taxes owing on behalf of employees and others, the budget proposes to create a priority in favour of the Crown over the claims of most other creditors. This priority would apply to unremitted tax deductions for the 90 days preceding a liquidation, assignment or bankruptcy of the payor or assessment of the payor for such deductions.

This amendment is effective for amounts deducted or withheld after May 23, 1985.

#### **4. Power to Make Retroactive Regulations**

The Standing Joint Committee of the House of Commons and Senate on Regulations and other Statutory Instruments recommended on June 20, 1984 that the government consider amending subsection 221(2) of the *Income Tax Act* to specify the circumstances in which retroactive regulations may be made in respect of income taxes. Following a study of the issue, the government is proposing to limit retroactive income tax regulations to three circumstances: where the proposed regulation provides relief to taxpayers, where it implements a budget or other public announcement, or where it corrects an ambiguous, incomplete or deficient enactment. These proposals will be discussed with the Standing Joint Committee before introducing changes to the *Income Tax Act*.

#### **5. Excise Act Administration**

Minor changes involving administration of the *Excise Act* are proposed in the budget. One would provide legislative authority for Revenue Canada to approve, on a case-by-case basis, the use of non-standard equipment and techniques to measure the alcohol content of spirits for purposes of computing duty payable. Other amendments relate to the circumstances under which manufacturers can recover excise duty paid on beer and tobacco products which they destroy as being unfit for use.

#### **6. New Sales Tax Assessment and Appeal Provisions**

The *Excise Tax Act* now contains no provisions for assessing a person's liability for sales and excise taxes levied under the Act, and provides a relatively limited system for taxpayers to appeal tax disputes to independent adjudicators. This budget proposes the introduction of a comprehensive system of assessments and appeals, modelled after the income tax system and incorporating the concept of not requiring the payment of taxes in dispute that was recently proposed for income tax purposes.

There will be two methods of gaining access to the appeals system: through the refund procedure or the assessment system. In addition, the Minister of National Revenue will be able to initiate a reference to the courts on any question arising under the Act.

**Refunds:** Where a person has applied for a refund, the Minister will be required to consider the application, promptly determine whether a refund is due, and send a notice of the decision to the taxpayer. Where the application is rejected, reasons will be set out in the notice. Otherwise, the legislation will require payment of the refund due.

**Assessments:** The Minister of National Revenue will be authorized to issue formal tax assessments, which will generally be the outcome of an audit of the taxpayer's books and records. Except in the case of fraud, evasion or misrepresentation, the assessment will be limited to transactions which occurred in the four years prior to the date of the assessment notice.

Taxpayers will be able to discuss the findings of the auditor informally with Revenue Canada officials before an assessment is issued. Experience indicates that many disputes can be resolved at this stage. Further opportunity for informal discussions will be achieved by permitting taxpayers to waive the limitation period on assessments on any or all matters. This mechanism may also be used where an immediate audit would be inconvenient for the taxpayer.

**Objections:** A taxpayer may object to an assessment or a decision of the Minister on a refund claim by filing a notice of objection within 90 days of the assessment or decision. An independent appeals division will be established within Revenue Canada, Customs and Excise, to advise the Minister with respect to objections. A notice of decision, with reasons, will be issued by the Minister.

**Appeals:** A taxpayer who is not satisfied with the Minister's decision on an objection may appeal to either the Tariff Board or the Federal Court Trial Division within 90 days.

The jurisdiction of the Tariff Board will be broadened from the current powers of declaring whether goods are taxable and the applicable rate of tax, to a jurisdiction similar to that exercised by the Tax Court of Canada. This will permit the Board to adjudicate on most questions arising out of disputed assessments and refund claims, and to make any order that the circumstances of the case require.

Appeals from the Tariff Board will be by way of trial in the Federal Court Trial Division. Whether the appeal is from a Tariff Board decision or directly from a Minister's decision on an objection, that court will deal with it in the same manner as any other action. However, if the Minister is appealing a decision of the Tariff Board, and the amount in dispute does not exceed \$10,000, the Minister will be required to pay the actual costs of the taxpayer in defending the appeal, regardless of the outcome. Further appeals to the Federal Court of Appeal and Supreme Court of Canada will be in accordance with the usual practice in those courts.

**Purchaser Appeals:** Many exemptions under the *Excise Tax Act* are conditional upon the use to which the goods will be put by the purchaser. Vendors generally accommodate purchases by customers who have tax-exempt status by selling goods at a reduced price and not remitting tax on the sale, or by claiming a refund of tax where it has already been paid.

Where the Minister assesses a vendor or rejects a refund claim in respect of a sale for which the purchaser has claimed exemption from tax, the legislation will permit the purchaser to assume the vendor's rights to pursue an objection or appeal and to receive any resulting refund where the vendor has assigned his rights to the purchaser or has otherwise failed to pursue the matter through the objection and appeal processes.

### **Taxes in Dispute**

For purposes of the *Income Tax Act*, the government has already announced that a taxpayer will not be required to pay taxes in dispute until after the first judicial ruling on his objections. The proposed legislation also provides for the early refunding of amounts previously paid, to the extent that the amount is in dispute. These proposals are being largely incorporated into the proposed sales tax appeals system.

Although taxes are generally past due when an assessment is issued, no collection action will be taken until after the taxpayer's 90-day period for filing an objection has expired. At that time, collection action will be permitted in respect of any amounts that remain undisputed.

Where a notice of objection is filed, collection action for the amount in dispute will be further delayed until after the Minister has rendered a decision on the objection and the taxpayer's 90-day appeal period has expired. Where a taxpayer appeals from that decision to the courts, collection proceedings will again be delayed until after the first court decision. Where the taxpayer loses that appeal, he will be required to pay the disputed taxes or post security even though he intends to appeal that decision to another court.

Where the right to a refund is in dispute, the refund will be paid when the taxpayer has been successful at any level of the appeal process, even if the decision is being appealed by the Minister. The Minister will have the discretionary power to pay a refund to any other person claiming a refund under similar circumstances. Certain constraints will apply, however, where there is reason to believe that doing so could jeopardize government revenues. Decisions to enforce payment in jeopardy situations will be subject to judicial review.

To ensure that frivolous appeals are not made solely to delay the payment of tax, the courts will be empowered to impose a penalty of 10 per cent of tax where the court finds that the appeal is groundless.



## **7. Return of Excess Tax Charged**

In some circumstances, taxpayers under the *Excise Tax Act* who identify the tax amount on their sales invoices may charge their customers more sales tax than is required under the provisions of the *Excise Tax Act*. The budget proposals will require such taxpayers to remit the excess amount to the Treasury.

## **8. Refunding Provisions in the *Excise Tax Act***

Currently, the *Excise Tax Act* allows claimants to make claims for recovery of sales tax within a four-year period after the refund becomes payable in the case of routine transactions, and within a one-year period in the case of refunds arising from judicial or ministerial interpretations of the tax legislation.

The existence of two different time periods has proven to be difficult to administer. As well, it has been criticized as being discriminatory in the case of the claims constrained to a one-year period and a source of confusion to the business community.

Effective immediately, claims for recovery of tax in respect of transactions on and after May 24, 1985 must be made within two years of the date of transaction. Refunds in respect of transactions prior to May 24, 1985 will continue to be considered within the four-year period following the transaction.

## **9. Investigation and Enforcement**

The budget proposes to amend the *Excise Tax Act* provisions relating to investigation and enforcement to parallel similar changes being proposed under the *Income Tax Act*. The power to seize documents in the course of an audit or inspection will be removed, and a new provision introduced to authorize the copying of documents and the use of such copies as primary evidence in court proceedings. In a further change, demands by Revenue Canada to third parties to provide information relating to transactions by unidentified taxpayers will be subject to the same legal requirements as are being proposed in the *Income Tax Act*. The power to search and seize for tax evasion and similar offences will continue to be exercised under the authority of the Criminal Code.

## **F. The Canadian Budgetary Process: Proposals for Improvement**

This discussion paper argues that Canada's system for developing budgetary proposals and implementing budgetary measures has failed to keep pace with the needs of today's complex government and economy. Specific reforms that are aimed at improving the budgetary process are proposed.

## **The Budget Date**

The present system of variable budget timing hampers the consultation process and generally constrains orderliness and certainty in the budgetary process. It unduly complicates internal government planning and management. Uncertainty as to the budget date has a negative impact on the decision-making climate in both the private sector and the provinces. The legislative process for enacting the budgetary measures cannot be effectively planned or implemented.

The paper proposes the establishment of a fixed annual date for presentation of the budget. This would provide greater certainty for planning and decision-making for the federal government, for provincial governments and for the private sector. It would provide the opportunity for more complementary economic and fiscal policy-making by governments. A fixed date would also lessen uncertainty, impose a regular budgetary cycle, improve consultations, help provincial budget planning and facilitate federal government planning. A fixed date would not, however, limit the government's flexibility to act as may be necessary. Autumn, winter and spring options for the fixed date are examined. Each option presents certain advantages. The paper recommends a winter budget between mid-January and mid-February as offering the optimum timing, given the various considerations.

## **Borrowing Authority**

The government's capacity to plan and carry out an orderly debt program is impaired by the current practice and procedures for obtaining borrowing authority. Delays in enacting borrowing bills result in real cost to the government and ultimately to the taxpayers.

The paper proposes that borrowing authority requests for a fiscal year be approved by Parliament before commencement of that year. The borrowing authority needs for a fiscal year would be obtained in conjunction with the proposed mid-winter budget presentation. The budget would identify a specific sum as the amount required for the fiscal year which would include a contingency reserve. A parliamentary procedure for obtaining borrowing authority at other times is also described.

## **Technical Matters**

The plethora of technical changes that accompany today's budgets thwarts effective consideration of the budget. It is proposed that technical matters be separated from the major policy measures contained in a budget and brought forward for study and consideration in advance of the budget. These drafted amendments, after full consideration by the appropriate parliamentary committee, could subsequently be incorporated into a bill based on the budgetary taxation motions when introduced in the House. This approach would ensure that the final legislation implementing budget initiatives could be proceeded with through Parliament more quickly and effectively since the various technical amendments would already have benefited from consideration. A draft bill containing a number

of technical changes to the *Income Tax Act* was tabled in the House of Commons by the Minister of Finance on May 9, 1985 as a significant step in liberating the budget from technical matters.

### **The Provisional Implementation of Taxation Measures**

The practice of provisionally implementing proposed tax measures before their enactment into law presents enforcement problems for Revenue Canada, compliance problems for taxpayers, and raises general questions as to the propriety of this practice. The paper proposes the establishment of a provisional implementation of taxation measures regime through the enactment of a statute along the lines of the provisional collection of taxes legislation in force in the United Kingdom. Under this regime, certain proposed taxation measures would be given statutory effect and have full legal status for a provisional period. The paper examines a number of general and technical issues that must be resolved to implement such a scheme. A draft bill entitled *The Provisional Implementation of Taxation Measures Act* is attached to the document for consideration and reaction.

### **Parliamentary Process**

Legislative delays handicap the parliamentary process for implementing proposed budget measures expeditiously. The various measures proposed in the paper, including the enactment of a *Provisional Implementation of Taxation Measures Act*, and an accelerated process for obtaining borrowing authority from Parliament, would help to eliminate the ineffective and inefficient use of parliamentary time. Alternatives to consideration of tax bills in the Committee of the Whole would also facilitate the legislative process.

### **Budget Secrecy**

The convention of budget secrecy, and the prevailing confusion surrounding budget secrecy, is reviewed by the document. The paper asserts the government's belief that the fundamental rationale for budget secrecy should be to prevent the possibility of profit from prior knowledge of budget matters. It recommends that the convention be examined and recommendations developed that would establish a reasonable interpretation reflecting contemporary budget needs and realities.

### **Conclusion**

The proposals in this paper, taken together, impose a system and discipline for an effective budgetary process and budgetary legislative cycle.

### **III. Controlling the National Debt**

#### **A. Expenditure Reductions**

##### **1. Modified Indexation of Transfers to Persons**

The indexation of federal transfers to persons will be modified, beginning January 1, 1986. At that time, family allowance and old age security (OAS) payments will be increased annually by the annual change in the consumer price index (CPI) in excess of 3 percentage points. If the CPI increase falls below 3 per cent, however, benefits will not be reduced. This will provide protection against inflation. The law will ensure that any increase in inflation above 3 per cent will be fully compensated.

The guaranteed income supplement (GIS) and veterans' benefits will continue to be fully indexed to any increases in the CPI. Spouses' allowances will continue to provide income-tested benefits equivalent to OAS and GIS combined.

The government will review the adequacy of payments in light of future circumstances and will increase them as resources permit.

##### **Family Allowances**

Family allowances will be increased on January 1 of each year by the annual change in the CPI in excess of three percentage points. The value of family allowances is currently \$31.27 per month.

##### **Old Age Security**

OAS benefits will be increased by the annual change in the CPI in excess of three percentage points, beginning January 1, 1986. Indexation will continue to apply on a quarterly basis. The OAS benefit is currently \$276 per month.

##### **2. Transfers to Provincial Governments**

In 1985-86, the federal government will transfer over \$14.2 billion in cash to provincial and territorial governments under the Equalization Program and the Established Programs Financing (EPF) arrangements. In addition, it will make available to provinces \$6.3 billion in tax transfers under the EPF arrangements. Total transfers in respect of these programs in 1985-86 will therefore amount to \$20.5 billion. Cash transfers in 1986-87 are expected to amount to \$15.3 billion and tax transfers to \$6.7 billion for a total of \$22 billion.

As part of a broad-based strategy to reduce the deficit and stimulate economic growth, the federal government is proposing to limit the rate of growth of transfers to provincial governments in order to effect savings amounting to about \$2 billion in 1990-91. The same principles of restraint will be applied to transfers to provinces as to other expenditures to spread the burden of expenditure reduction as broadly and fairly as possible. There will be no change to provincial transfers in the current fiscal year. The pace and manner of achieving these savings will be the subject of discussions with the provinces commencing this fall.

Even after this adjustment, total cash and tax transfers to provincial governments in respect of these programs are expected to grow, on average, by about 5 per cent per year over the balance of the decade. By 1990-91 cash transfers in respect of equalization, health and post-secondary education are expected to represent about the same share of total federal program expenditures as they do today, about 18 to 19 per cent.

### **Equalization**

Under this program, the federal government makes unconditional grants to provincial governments in lower-income regions of the country to ensure that they are able to provide levels of public services that are comparable across the country.

### **Established Programs Financing**

Under Part VI of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, the federal government contributes to the financing of insured health services, extended health care services and post-secondary education through cash payments and tax transfers.

### **Equalization and EPF Transfers to Provincial Governments**

	1985-86	1986-87
	(millions of dollars)	
Equalization	5,315	5,530
Established Programs Financing	8,940	9,805
Total cash	14,255	15,335
EPF tax transfer	6,278	6,728
Total cash and tax	20,535	22,063
Total program expenditures	79,045	80,825
Cash transfers as percentage of total program expenditures	18.0	19.0

## **B. Revenue Increases**

### **1. Personal Income Tax**

As part of a wide-ranging series of initiatives on both the expenditure and revenue side to control the national debt, the budget makes several general changes to increase personal income tax. A temporary 18-month surtax will apply to high-income individuals starting this year. Starting in 1986 the existing federal tax reduction will be eliminated. Consistent with the government's general approach, indexation of personal income taxes will also be modified starting next year.

#### **a) Modification of Personal Income Tax Indexation**

Currently, the indexing adjustment for each year is based on the average annual increase in the CPI for the 12-month period ending on September 30 of the previous year. The budget proposes that, beginning in the 1986 taxation year, the indexation of personal exemptions and tax brackets will be based on the amount of the annual increase in the CPI that exceeds 3 per cent. Should the CPI increase by less than 3 per cent, there would be no indexation adjustment in that year. This modification to indexation will not apply to computation of forward-averaging amounts. The amount of the child tax credit is being increased in fixed amounts in 1986, 1987 and 1988 and will thereafter also be indexed to the annual increase in the CPI in excess of 3 per cent.

#### **b) Temporary Surtax on High-Income Individuals**

For the 18-month period beginning July 1, 1985, the budget proposes to introduce a surtax on high-income earners. The surtax will be at the rate of 5 per cent on federal basic tax between \$6,000 and \$15,000 and 10 per cent on basic federal tax in excess of \$15,000. The surtax will not be subject to deductions at source in 1985.

The surtax will affect filers with **taxable** income in excess of approximately \$30,000 in 1985. This means that, for married taxpayers with two children, claiming exemptions and deductions that are generally available, only those earning in excess of \$40,000 will be affected by the surtax. The higher 10-per-cent rate of surtax will affect those with taxable incomes above \$60,000 in 1985, which corresponds to approximately \$75,000 of earnings for a married taxpayer with two children claiming standard exemptions and deductions. Approximately 1.2 million taxpayers will be subject to the surtax, which will not affect provincial tax revenues.

#### **c) Elimination of the Federal Tax Reduction**

Individual taxpayers are currently eligible for a federal tax reduction of \$100 in 1985 and \$50 in 1986 and subsequent taxation years. For individuals with basic federal tax in excess of \$6,000, the federal tax reduction is diminished by 10 per cent of basic federal tax in excess of that threshold.

**Federal and Provincial Tax Increase  
From General Personal Income Tax Changes, 1986**

**Single Taxpayers under Age 65**

Income level	Modified indexation	Temporary surtax	Elimination of federal tax cut	Total
(dollars)				
10,000	37	-	50	87
15,000	46	-	50	96
20,000	54	-	50	104
30,000	83	-	50	133
40,000	108	38	0	146
50,000	197	167	0	364
75,000	315	579	0	894
100,000	315	1,314	0	1,629
200,000	315	4,483	0	4,798

**Married Couple, One Earner,  
Two Dependants under Age 18**

Income level	Modified indexation	Temporary surtax	Elimination of federal tax cut	Total
(dollars)				
10,000	-	-	-	0
15,000	62	-	100	162
20,000	75	-	100	175
30,000	84	-	100	184
40,000	145	-	100	245
50,000	241	100	-	341
75,000	258	426	-	684
100,000	365	1,187	-	1,552
200,000	365	4,402	-	4,767

*Note:* Taxpayers are assumed to be under age 65, to receive income from both earnings and investments, and to claim standard exemptions and deductions. The provincial tax is calculated at the average provincial tax rate of 48 per cent of federal basic tax. As rates of provincial tax vary from province to province, taxpayers in some provinces will experience tax increases that differ from those given above. No provision is made in the calculation for any provincial tax credits or surcharges.

The tax reduction was introduced in 1973 at the rate of 5 per cent of federal income tax otherwise payable with a minimum of \$100 and a maximum of \$500, to provide stimulus to the economy at that time. It is not part of the basic structure of the personal income tax and has been modified from time to time in response to changing economic circumstances. It does not affect provincial revenues.

As part of the deficit reduction measures, the budget proposes to eliminate the federal tax reduction for 1986 and subsequent taxation years. The maximum tax increase from this measure is \$50 for single and \$100 for married taxpayers in each year.

The table below shows the impact of the general personal income tax measures for 1986.

## **2. Temporary Surtax on Large Corporations**

As part of the budget policy of deficit reduction, a temporary surtax of 5 per cent will be imposed on the federal income tax payable by corporations, with the exception of tax on income qualifying for the low small business tax rate. The surtax will be in place for the 12 months from July 1, 1985 to June 30, 1986. It will apply to an estimated 60,000 corporations. Some 205,000 small business corporations will be exempt from the surtax.

The surtax will apply to federal corporate taxes otherwise payable before the deduction of various tax credits, including share-purchase tax credits, scientific research tax credits, investment and employment tax credits and the tax credits for foreign taxes and political contributions. The surtax will not affect the instalment obligations of corporations nor will it affect provincial revenues.

## **3. Temporary Capital Tax on Larger Financial Institutions**

It is proposed that commencing January 1, 1986 a tax be levied for two years on the capital of larger financial institutions regulated under the *Bank Act*, the *Quebec Savings Banks Act* and under the federal and provincial trust and/or loan corporation legislation. The tax will be at an annual rate of 1 per cent of the capital employed in Canada in excess of a \$200 million threshold.

Capital will be measured as of the beginning of the fiscal year and will be:

- share capital;
- retained earnings;
- contributed surplus;
- reserves not deductible for income tax purposes; and
- long-term debt that is subordinated to the claims of other creditors and matures not earlier than five years from the date of issue.



The proposal is to tax capital employed in Canada that is employed in activities that are regulated under the *Bank Act*, the *Quebec Savings Banks Act* and under the federal and provincial trust and/or loan corporation legislation. To accomplish this objective a number of adjustments from the figures reported in financial statements will be permitted in determining taxable capital.

1. If the shareholders' equity in the financial statements includes undistributed earnings of other corporations, such undistributed earnings will be deducted in determining total capital.
2. The amount of capital employed in Canada generally will be determined on the basis of the proportion of the total capital of the corporation that its Canadian assets are of its total assets.
3. There will be two deductions permitted from capital employed in Canada relative to investments in other corporations:
  - (a) 100 per cent of the cost of shares of a Canadian subsidiary corporation that is subject to this tax. This deduction will ensure that the same capital is taxed only once;
  - (b) an investment allowance for significant investments (20 per cent or more of the voting shares) in other Canadian corporations. This allowance will be a proportion of the corporation's capital employed in Canada equal to the ratio of such significant investments to its Canadian assets.

The tax will be paid separately by each corporation subject to the tax within a corporate group. Taxpayers will have the right to allocate the \$200 million capital threshold among corporations in a related group.

It is proposed that the tax will be effective for the period from January 1, 1986 to December 31, 1987. For corporations with other than a December 31 year-end, the tax will be prorated on the basis of the number of days in the period. Instalment payments of the tax will be required on a quarterly basis in each fiscal year.

This tax will be a deductible expense for income tax purposes.

#### **4. Registered Home Ownership Savings Plan**

The registered home ownership savings plan (RHOSP) was introduced in 1974, allowing taxpayers who were not home owners to deduct contributions of up to \$1,000 a year, to a lifetime maximum of \$10,000, to save for a home. These contributions resulted in savings on both federal and provincial income taxes, although in 1983 the provincial tax deduction for RHOSP contributions was eliminated in Quebec.

Effective May 23, 1985 contributions to an RHOSP can no longer be made. Existing planholders will be allowed to withdraw RHOSP funds tax-free after

May 22, 1985. Where such amounts have not been withdrawn from an RHOSP by December 31, 1985, income earned thereafter in the plan will no longer be exempt from tax. Taxpayers who have already included in their income amounts removed from an RHOSP prior to May 23, 1985 will continue to be entitled to a deduction from income to the extent the funds are used to acquire an owner-occupied home within three years from the year the funds are withdrawn. The change is expected to yield over \$100 million a year in additional federal government revenues.

There are approximately \$2 billion of accumulated funds in existing RHOSPs. The availability of these funds on a tax-free basis for any purpose, coupled with other new incentives announced in the budget, will make available to Canadians a large pool of funds to be used to support entrepreneurial job-creating investments and purchases of consumer goods.

## **5. Alcohol and Tobacco Taxes**

The excise levies on alcoholic beverages and tobacco products are expressed as specific amounts of tax per unit of product as opposed to *ad valorem* taxes which are expressed as a percentage of the price of a product. Currently, the levies are automatically adjusted annually in line with increases in the CPI. The government believes that automatically increasing the excise levies on alcohol and tobacco products in accordance with a rigid formula is not appropriate.

The budget proposes to eliminate the automatic indexation of the taxes on alcoholic beverages and tobacco products. In place of the increases scheduled for September 1, 1985, the budget proposes to increase the levies on spirits, beer and wine by 2 per cent, effective immediately. Indexation would have resulted in an increase of some 4 per cent. Future increases to be proposed to Parliament from time to time will take inflation into account as a guide.

In recognition of the health hazard and the attendant costs to society of smoking, the excise levies on cigarettes are increased by 1 cent per cigarette effective immediately. Tax on a large pack of cigarettes will thus rise by 25 cents. The levies on other tobacco products will also be increased proportionately.

The budget also proposes to relax the present constraints on individuals who produce home-brewed beer for their own consumption. Present rules restrict consumption of the beer to the individual and family members within the home; it may not be served or given to others. A proposed amendment to the *Excise Act* would allow consumption of home-brewed beer outside the home and by persons outside the immediate family, and the individual will no longer have to obtain permission from Revenue Canada. The change will place individuals producing home-made beer on the same footing as those making their own wine. The restriction against commercial sale of these products will continue to apply.

## **6. Removal of Federal Sales Tax Exemptions**

The exemption from sales tax applying to a range of consumer goods is being ended, effective July 1, 1985.

Prior to the mid-1960s, the federal sales tax applied to most consumer goods. Since then, exemptions have been granted to a number of products in response to the social and fiscal policy goals of the government of the day. This government has re-examined a number of these tax exemptions, as has the Ministerial Task Force on Program Review (headed by the Deputy Prime Minister) which has recommended a repeal of several of them. These exemptions have resulted in a significant erosion of the federal sales tax base. The rationale which originally prompted the exemptions is no longer valid in many cases. They give rise to serious administrative and compliance difficulties in distinguishing taxable from exempt products. For example, the scope of the exemption for health goods has been the subject of several court cases and a number of cosmetic and personal hygiene products have obtained tax relief. In many cases, the existing exemptions give rise to demands for parallel treatment by manufacturers of other competing or similar classes of goods that are currently taxable.

In response to these concerns and to spread the burden of deficit reduction over a wider range of consumer goods, the budget proposes the repeal of the federal sales tax exemption for the following:

- candy and confectionery;
- pet food;
- soft drinks, including carbonated beverages, non-carbonated fruit-flavoured beverages containing less than 25 per cent natural fruit juice, and concentrates for making such beverages;
- health goods such as medicated creams, lotions, shampoos, soaps, and bandages. The exemption will remain for prescription drugs, feminine hygiene products, contraceptives and certain biological drugs which can be acquired without prescription such as insulin and vaccines;
- surgical and dental instruments, X-ray apparatus and X-ray films; and
- wood-burning stoves, wind deflectors, heat pumps, solar heaters, panels and furnaces, insulation materials, wind generators and windmills, wind deflectors and other such goods.

Hospitals are currently exempted from the federal sales tax on all of their purchases and will not be affected by the repeal of any of the exemptions above.

All of the goods above, with the exception of those in the last category, will become subject to tax at the general rate of 10 per cent. Some of the products in the last category will qualify as construction goods and will be taxable at the rate of 6 per cent. These include heat pumps, solar furnaces, insulation materials, and other goods for permanent installation in an electricity supply system.

The tax will generally apply at the manufacturers' level. Health goods will, however, be taxable at the wholesale level. Many of these products are marketed through wholesalers and distributors who also sell cosmetics. They are already

licensed for purposes of the federal sales tax and are required to account for tax on cosmetics on their sale price. Imposition of tax at the wholesale level for health goods will result in a more uniform application of tax to all of their sales.

Businesses making sales of the products affected should contact local offices of Revenue Canada, Customs and Excise, to obtain the necessary details about the procedures for licensing and accounting and remittance of tax.

## **7. Federal Sales Tax Rate Increase**

The rates of sales tax, currently 6 per cent for construction goods and cable and pay television services, 13 per cent for alcoholic beverages and tobacco, and 10 per cent for other taxable goods, will increase to 7 per cent, 14 per cent and 11 per cent, respectively, on January 1, 1986. The rates of the sales tax were previously increased by one percentage point (to 6 per cent, 13 per cent and 10 per cent, respectively) for the period October 1, 1984 to December 31, 1988. The budget proposals cancel the termination date for this increase, thus continuing it in force beyond December 31, 1988.

## **8. Tax Changes Affecting Motive Fuels**

Motive fuels are now subject to the regular federal sales tax and to a special excise tax. The budget proposes to increase the excise tax and to change the method of computing the sales tax.

### **Increased Excise Taxes**

The government is proposing an excise tax increase of 2 cents per litre on gasoline, diesel, aviation gasoline and jet fuel. The tax will apply to all users of these fuels. In the case of gasoline and aviation gasoline, this tax will be in addition to the existing excise tax of 1.5 cents per litre which applies to non-commercial users of these fuels.

The tax will be effective from September 3, 1985. The delay in the imposition of the tax increase takes account of the importance of the summer travel season to tourists and to Canadians. It also allows a reasonable time for inventories of products that have already borne the Canadian Ownership Special Charge to move through the distribution system.

### **Changes in Method of Computing Sales Tax**

To improve the compliance and administration of the federal sales tax on motive fuels the budget proposes that the method of computing this tax be altered.

Gasoline and diesel fuel are currently subject to the federal sales tax of 10 per cent of the sale price to retailers. The petroleum industry has expressed concern that the tax may not apply uniformly to sales of these fuels through independent

dealers, wholesalers, and refinery-owned retail outlets. There are also administrative difficulties in determining the amount of the liability when fuel prices fluctuate rapidly. To address these concerns, the tax will be expressed as a specific amount per litre of the fuels and the amounts will be adjusted quarterly based on the industry selling price index for motor gasoline and for diesel fuel as published by Statistics Canada. Adjustments to the specific levies will be made quarterly on the first day of January, April, July and October each year commencing on October 1, 1985.

The specific rates applicable from June 1, 1985 will be:

gasoline, regular 3.2 cents per litre  
gasoline, unleaded 3.5 cents per litre  
gasoline, premium, leaded or unleaded 3.6 cents per litre  
diesel fuel 2.9 cents per litre

**These changes are not designed to alter the overall level or yield of the sales tax.**

The federal sales tax on aviation gasoline and jet fuel will continue to be imposed as an *ad valorem* tax.

## **9. Prefabricated Construction Goods**

Construction materials are currently subject to the federal sales tax of 6 per cent of the manufacturers' sale price. Ready-mix concrete, pre-cast concrete steps and blocks, wooden trusses, fabricated structural steel, and a range of other prefabricated goods and structures have, however, been taxable on their material costs only under a separate provision of the *Excise Tax Act*. This provision was originally introduced because the prefabricated goods competed with goods fabricated on construction sites and in the latter case the tax applied to the cost of materials only. Construction practices have since changed substantially and there is now virtually no on-site manufacturing of these products. While the original rationale for the provision is thus no longer applicable, its continuation results in significant differences in effective rates of tax on various types of competing construction goods.

To ensure a more uniform application of tax, the budget proposes a repeal of this special provision for prefabricated construction goods. As a result, they will all become taxable at the rate of 6 per cent of the manufacturers' sale price. Mobile homes and modular building units will be taxable on only 70 per cent of the sale price to keep the tax on them in line with the tax on structures built on site.

These measures will be effective July 1, 1985 to give the affected firms an opportunity to arrange their accounting systems to handle the tax.

## **IV. Other Tax And Tariff Changes**

### **A. Tax Changes**

#### **1. Northern Allowances and Severance Pay in Isolated Communities**

In the November Economic Statement, the government announced that it was extending, until the end of 1985, the orders that remit tax on certain allowances and benefits paid to persons residing in the north and in other isolated communities. The current system does not apply uniformly to employees in these communities. Consultations are commencing on how the existing system might be improved.

The government believes that when industrial closures occur it is often appropriate to join with employers to assist those who are displaced. Accordingly, the government remains ready, on a case-by-case basis, to consider exempting severance pay and termination payments from tax in the case of closure of the principal industry in remote communities, where alternative employment opportunities are limited or simply do not exist.

#### **2. Guaranteed Shares**

In general, payments of dividends between Canadian corporations are not subject to tax. However, a provision was added to the *Income Tax Act* in 1979 to deny this exclusion for dividends on shares where a financial institution has undertaken to guarantee or insure the shareholder's investment, subject to certain exemptions. This budget proposes to eliminate one of these exemptions. As a result, the provision will now apply to all corporate holders, including those financial institutions which currently are not subject to the provision on listed shares they hold. This change will generally apply to shares issued after May 23, 1985.

#### **3. Tax Payments Through Banks**

Under existing law, chartered banks are required to receive and remit income tax payments from their customers but are prohibited from charging the customers for this service. This rule does not apply to trust companies and other financial institutions. The budget proposes to remove the statutory obligation on banks to handle these payments and to allow them to charge a fee for this service. This would apply to payments made following a date to be fixed by proclamation. A consequential amendment will also be made to section 160 of the *Financial Administration Act* to permit banks to charge a fee for accepting payments to the Receiver General.

#### **4. Life Insurers' Reserves**

The budget proposes to allow life insurance corporations a tax deduction for reasonable reserves in respect of anticipated policy claims where deaths occur in the taxation year but are not reported to the life insurer until after its year-end. The amount of the reserve will be determined under rules to be set out in the Income Tax Regulations. This change will take effect for 1985 and subsequent taxation years.

#### **5. Cable TV Equipment**

The budget proposes to increase the rate of capital cost allowance available to cable television systems for cable TV converters and descramblers, to 30 per cent from 20 per cent. The rates of allowable depreciation for income tax purposes are set out in the Income Tax Regulations. The charge covers interface equipment rented to cable TV subscribers to provide access to a wide variety of TV channels. The new rate will apply to equipment purchased on or after September 1, 1984 – the start of the 1985 taxation year for most cable companies. The proposed 30-per-cent rate of capital cost allowance is the same as the rate for computers, the major category of advanced electronic equipment.

#### **6. Inducement Payments and Reimbursements**

It is a generally accepted commercial principle that the cost of an asset or the amount of an expense should be reduced by any reimbursement or similar payment received that relates to the acquisition of the asset or the incurring of the expense. For example, a commercial tenant who was reimbursed by a landlord for part or all of the cost of making leasehold improvements would subtract the payment in computing the cost of such property. A similar result would arise with respect to manufacturers' rebates.

Recent court decisions have indicated that this principle may not apply for income tax purposes.

The budget proposes to require that all payments in the nature of reimbursements or inducements in respect of the acquisition of an asset or the incurring of a deductible expense be included in income for tax purposes unless the recipient elects to reduce the cost basis of the related property or the amount of related expense. This would apply to payments received after May 22, 1985 other than payments received under an agreement in writing made on or before that date. The law already specifically requires similar treatment for certain payments received as government assistance for the acquisition of property.

#### **7. Dues to Parity or Advisory Committees**

A new income tax provision will allow union members to deduct amounts paid to cover the cost of parity or advisory committees – bodies set up under provincial

laws to oversee collective agreements. The committees are jointly financed by employers and organized labour. Labour's share of these costs is paid directly by union members. The budget proposes to permit union members to deduct amounts paid towards the cost of such committees where the payment is required by provincial law. Some 80,000 employees will benefit from the change, which applies to the 1985 and subsequent taxation years.

## **8. Prizes and Awards**

Many employers give awards, prizes and similar payments to their employees in the course of their employment. Generally, these payments represent taxable benefits to the employee and are intended to be fully included in income. However, a recent court decision indicated that certain of these awards might qualify for a \$500 exemption for receipts of scholarships, fellowships, bursaries and prizes for achievement. The budget proposes to clarify that work-related and business-related awards, prizes and similar payments do not qualify for the \$500 exemption for scholarships and similar awards. This amendment is effective for payments received after May 23, 1985.

## **9. Allowable Reserves of Banks**

Chartered banks are currently allowed a deduction from taxable income for reasonable reserves to meet possible future losses on loans. The Inspector General of Banks issues the rules governing the level of tax-deductible reserves that are reasonable, and the limits on reserve accumulations in a given year. These reserves are limited to a specified proportion of a bank's assets. After a period of unusual loan loss experience, as recently experienced by the banks, the mechanics of the rules may allow banks to accumulate tax-deductible reserves in excess of this limit. The budget proposes a change in the operation of the Inspector General of Banks' rules to prevent a possible accumulation of tax deductions in future that could exceed the limit. Any reserve deduction that is disallowed for tax purposes will be available to be carried forward for future deduction if reserves should fall below their allowed limit in the future.

## **10. Inventory Allowance**

The 3-per-cent inventory allowance was introduced in 1977 to help offset the impact of inflation on businesses carrying significant inventories of tangible goods. This allowance was not intended to apply to financial assets such as foreign currency held by financial institutions and others who deal in foreign currency, but not including coin dealers. The budget proposes to deny the deduction in respect of inventories of currency. The change will be effective for taxation years commencing after May 23, 1985.

## **11. Tourist Literature**

Government-sponsored tourist literature is being exempted from the federal sales tax, effective immediately. The exemption will apply to tourist literature acquired



or imported by federal, provincial, territorial, and municipal governments in Canada as well as national, state, and local governments of other countries and their agencies. The change will affect only tourist literature that is distributed free of charge and does not solicit tourist business by specific commercial activities. Consideration is being given to the means of extending similar relief to appropriate non-government associations and agencies.

## **12. A. Wholesale Tax for Pre-Recorded Video Cassettes**

Pre-recorded video cassettes are currently subject to the federal sales tax of 10 per cent of the manufacturers' sale price. Normally, this price includes the manufacturers' royalty charges in respect of the program that is recorded on the cassette. The government has, however, received representations that in certain cases the tax is applicable on the base manufacturing cost of the cassette and that much of the royalty charge is being excluded from the sale price for tax purposes. To correct the resulting inequity, effective July 1, 1985 the tax on pre-recorded video cassettes will be shifted from the manufacturers' level to the wholesale level. This will not result in any major tax increase on these products as most manufacturers sell them directly to retailers and will continue to account for tax on their actual sale price as under the current law.

## **13. Other Excise Tax Amendments**

Other amendments affecting sales and excise tax proposed in the budget include:

- extension of sales tax exemption to log boom chains, to match the existing tax treatment of wire rope which is used for the same purpose;
- clarification of the tax exemption for partly-manufactured goods to be incorporated into manufactured goods, and for parts supplied by a manufacturer under warranty;
- clearer definition of the tax liability where a licensed vendor provides goods tax-free to a customer who uses an invalid certificate of exemption from sales tax;
- a waiver for interest and penalty charges imposed for late filing of tax returns where the penalty and interest amount to less than \$10.

## **B. Customs Tariff Amendments**

Effective May 24, 1985, the Customs Tariff is being amended to replace the free General Preferential Tariff rate on motor vehicle parts from developing countries by two-thirds of the Most-Favoured-Nation (MFN) rate (i.e., 7 per cent). As of January 1, 1987, automobiles and other motor vehicles from developing countries will also be subject to two-thirds of the MFN rate, which will be 6 per cent at that time as the result of reductions in rates stemming from the Tokyo Round Multilateral Trade Negotiations.

The recommendations contained in the Tariff Board Report on Reference 162: "Woollen and Worsted Yarns and Fabrics" are being dealt with. The Board's recommendations involving rate increases on woollen fabrics are not being implemented because such action could negatively affect existing garment production. However, action is being taken to prevent future erosion of the protective effect of the tariff on certain wool fabrics. There are also some other tariff changes being made in response to the Board's recommendations.

Canadian tourists will be able to import, duty- and tax-free, goods worth up to \$100 any number of times during the year, provided they have been absent from Canada for at least 48 hours.

A number of tariff amendments respond to the remaining recommendations contained in Phase I of the Report of the Tariff Board entitled "Tariff Items Covering Goods Made/Not Made in Canada". Other amendments would restore the level of tariff protection which was intended to apply. Several amendments take action on representations received from the private sector; most of these provide for lower rates of duty on various goods that are not made in Canada. For example, duty-free entry is being provided for aluminum drop-centre livestock trailers as well as for welders' helmets and face shields, and industrial face shields. Certain football equipment (i.e., helmets, face masks and shoulder pads) will now be subject to duty-free entry. The government has decided not to impose a 25-percent tariff on large fishing vessels as it was concluded that such a tariff would have imposed a severe financial burden on the fishing industry without any guarantee of offsetting benefits to the shipbuilding industry.

Several amendments also provide duty-free entry for certain products imported from developing countries.

## **V. Expenditure, Revenue and Deficit Impacts of the Budget Measures**

The following three tables summarize the fiscal impact of the tax and expenditure reduction measures taken in November 1984 and in this budget. The first table summarizes the impact on the deficit in 1985-86, 1986-87 and 1990-91 of all measures taken. The second sets out in more detail the impact of the expenditure reduction and cost recovery measures. The third describes in detail the impact of tax measures on revenues for the 1985 and 1986 taxation years.

Table 1

**Summary of the Fiscal Impact  
of Discretionary Changes Since September**

	1985-86	1986-87	1990-91
	(billions of dollars)		
<b>Discretionary tax revenue changes</b>			
November statement			
Tax revenue reductions	-0.2	-0.2	0.0
Tax revenue increases	0.4	0.6	0.2
<b>Total</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>
May budget			
Tax revenue reductions	-1.2	-3.1	-6.0
Tax revenue increases	1.4	4.9	10.1
<b>Total</b>	<b>0.2</b>	<b>1.8</b>	<b>4.1</b>
<b>Total revenue changes</b>	<b>0.4</b>	<b>2.2</b>	<b>4.3</b>
<b>Discretionary expenditure changes<sup>(1)</sup></b>			
November statement			
Expenditure reductions	-3.5	-3.2	-4.0
Expenditure increases	1.5	0.4	0.5
<b>Total</b>	<b>-2.0</b>	<b>-2.8</b>	<b>-3.5</b>
May budget			
Expenditure reductions	-2.0	-3.5	-8.2
Expenditure increases	0.2	1.0	0.4
<b>Total</b>	<b>-1.8</b>	<b>-2.5</b>	<b>-7.8</b>
<b>Total program expenditure changes</b>	<b>-3.8</b>	<b>-5.3</b>	<b>-11.3</b>
Reduction in debt interest charges	-0.2	-0.8	-4.5
<b>Total expenditure reductions</b>	<b>-4.0</b>	<b>-6.1</b>	<b>-15.8</b>
<b>Total discretionary change to the deficit</b>	<b>-4.4</b>	<b>-8.3</b>	<b>-20.1</b>
<b>Cumulative impact on federal debt</b>	<b>-4.4</b>	<b>-12.7</b>	<b>-75.0</b>

<sup>(1)</sup> Includes some cost recovery measures.

Table 2

**Total Expenditure Reductions and Cost Recovery**

	1985-86	1986-87	1990-91
	(millions of dollars)		
<b>November 1984 measures</b>			
Better management	1,007	931	1,150
Program reductions	2,187	2,061	2,050
Policy reserve reductions	300	225	800
<b>Total budgetary reductions</b>	<b>3,494</b>	<b>3,217</b>	<b>4,000</b>
Non-budgetary reductions	625	500	500
<b>Total budgetary and non-budgetary reductions</b>	<b>4,119<sup>(1)</sup></b>	<b>3,717</b>	<b>4,500</b>
<b>May 1985 measures</b>			
Better management	1,185	1,732	2,250
Sale of Crown corporations	350	-	-
Economic program reductions	455	1,408	1,950
Modification of indexing for old age security and family allowance	35	335	2,020
Transfers to provincial governments	-	-	2,000
<b>Total budgetary reductions</b>	<b>2,025</b>	<b>3,475</b>	<b>8,220</b>
Non-budgetary reductions	65	74	-
<b>Total budgetary and non-budgetary reductions</b>	<b>2,090</b>	<b>3,549</b>	<b>8,220</b>

<sup>(1)</sup> In the November 1984 Statement the total savings for 1985-86 were estimated at \$4,244 million: This latter figure includes \$425 million of additional Revenue Canada collections, but does not include the \$300 million of policy reserve reductions.

Table 3

**Federal Revenue Impact of Budget Tax Changes**

	Effective date	Calendar year <sup>(1)</sup>	
		1985	1986
(millions of dollars)			
<b>Major Personal Income Tax Measures</b>			
Lifetime exemption for capital gains	phased in beginning 1985 tax year	-550	-700
Modification of personal income tax indexation	1986 tax year	0	635
Temporary surtax on high-income individuals	July 1, 1985 to December 31, 1986	235	500
Elimination of federal tax reduction	1986 tax year	0	650
Elimination of RHOSP deduction	contributions after May 22, 1985	80	105
New limits for pension plan contributions	phased in beginning 1986 tax year	0	-80
Exemption for interest-free housing loans	moves after May 23, 1985	-5	-10
Extension of disability deduction	1986 tax year	0	-40
Modification of exemptions for children and other dependants	1987 tax year	0	0
Modification to the child tax credit	1986 tax year	0	-150
<b>Other Personal Income Tax Measures</b>			
Repeal of indexed security investment plan provisions	January 1, 1986		*
Repeal of special RRSP contribution for farm capital gains	Contributions after May 23, 1985		*
Repeal of \$200,000 intergenerational rollover for small business corporation shares	1988 tax year		*
Exclusion of capital gains from the \$1,000 investment income deduction	1985 tax year		*
Repeal of life insurance capital dividend account	May 24, 1985		*
Limit deduction of capital losses against other income	1985 tax year		*

<sup>(1)</sup> In the case of personal and corporate income tax measures, the revenue effects refer to taxation years. For commodity tax measures, the values are for sales during the calendar year.

\* The revenue impact of this measure is included with that of the capital gains tax exemption.

Table 3 (Cont'd)

**Federal Revenue Impact of Budget Tax Changes**

	Effective date	Calendar year <sup>(1)</sup>	
		1985	1986
		(millions of dollars)	
Modification to the \$500 exemption for prizes and awards	receipts after May 23, 1985	small revenue increase	
Deductibility of employee dues for parity or advisory committees	1985 tax year	small revenue reduction	
Cash-basis accounting for individual artists	1985 tax year	small revenue reduction	
Deductibility of artist's work donated to a charity	January 1, 1985	small revenue reduction	
Deduction for gifts of intangible property to a charity	January 1, 1985	small revenue reduction	
Extension of income attribution rules to loans (income splitting)	May 23, 1985	possibly significant revenue increase in later years	
Introduction of a federal tax credit for purchase of shares of a labour-sponsored venture capital corporation	May 24, 1985	small revenue reduction	
<b>Major Measures Affecting Corporations</b>			
Temporary corporate surtax	July 1, 1985 to June 30, 1986	165	295
1 per cent capital tax on chartered banks and trust companies	January 1, 1986 to December 31, 1987	0	85
Termination of the scientific research tax credit	May 23, 1985	0	100
Refund of investment tax credit on first \$2 million annually of current R&D expenditures by small companies	expenditures after May 23, 1985	-80	-125
Extension of 50 per cent investment tax credit for one year	January 1, 1986 to December 31, 1986	0	-30
50 per cent investment tax credit for approved projects on Cape Breton Island	expenditures after May 23, 1985	depends on approvals	
Extension of small business bond provision	January 1, 1986 to December 31, 1987	0	-7
Extension of withholding tax exemption for long-term corporate debt and government securities	January 1, 1986 to December 31, 1988	0	-30
Restriction of investment tax credit to expenditures net of grants and other assistance payments	Expenditures after May 23, 1985	30	50

Table 3 (Cont'd)

**Federal Revenue Impact of Budget Tax Changes**

	Effective date	Calendar year <sup>(1)</sup>	
		1985	1986
(millions of dollars)			
<b>Other Corporate Measures</b>			
Denial of 3 per cent inventory allowance on inventory of currency	taxation years commencing after May 23, 1985	small revenue gain	
Denial of deduction for excess reserves of banks	tax years commencing after May 23, 1985	small revenue increase	
Restriction of carryover of investment tax credit on corporate acquisitions	acquisitions after May 23, 1985	small revenue increase	
Extension of term-preferred share rules to shares guaranteed or insured by financial institutions	shares issued after May 23, 1985	small revenue increase	
Taxation of reimbursements or inducements in respect of expenses or asset acquisitions	reimbursements after May 22, 1985	small revenue increase	
Reserve for life insurance claims not yet reported	1985 tax year	small revenue reduction	
<b>Energy Tax Measures</b>			
Phase out of the Petroleum and Gas Revenue Tax (PGRT)	January 1, 1986	0	-515
Exemption from PGRT for new production revenues	April 1, 1985	-100	-250
Offset of unused exploration (CEE) and development (CDE) income tax deductions against PGRT	April 1, 1985	-140	-225
Annual \$10,000 exemption from PGRT for individuals	1986 tax year	0	-2
Repeal of the Natural Gas and Gas Liquids Tax	June 1, 1985	0	0
Repeal of the Incremental Oil Revenue Tax	production after December 31, 1984	0	0
Removal of the Canadian Ownership Special Charge	June 1, 1985	-460	-920
<b>Commodity Tax Measures</b>			
One-per-cent increase in the sales tax rates	January 1, 1986	0	825
Imposition of 2.0 cents/litre excise tax on motive fuels	September 3, 1985	160	930
Increase in excise levies on cigarettes and tobacco	as of budget announcement	140	320
De-indexation of excise levies on alcohol and tobacco products	September 1, 1985	-15	-95



Table 3 (Cont'd)

**Federal Revenue Impact of Budget Tax Changes**

	Effective date	Calendar year <sup>(1)</sup>	
		1985	1986
(millions of dollars)			
<b>Commodity Tax Measures (Con'td)</b>			
2 per cent increase in excise levies on alcohol	May 24, 1985	10	20
Extension of the federal sales tax to:			
- Candy and confectionery	July 1, 1985	35	110
- Soft drinks	July 1, 1985	45	145
- Pet food	July 1, 1985	10	30
- Health goods and surgical/dental instruments	July 1, 1985	25	75
- Insulation, wood stoves and similar goods	July 1, 1985	15	60
Elimination of special provision for off-site construction materials	July 1, 1985	30	90
Shift in tax on video cassettes to the wholesale level	July 1, 1985	small revenue increase	

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**Notice of Ways and Means Motion  
to Amend the Income Tax Act**

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# Notice of Ways and Means Motion to Amend the Income Tax Act

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

## Capital Gains Exemption

### Lifetime Exemption

(1) That a cumulative lifetime exemption of \$500,000 of capital gains (\$250,000 of taxable capital gains) be provided to individuals other than trusts by permitting a special deduction in computing taxable income for the 1985 and subsequent taxation years of an amount equal to the lesser of the individual's net eligible taxable capital gains for the year and his unused exemption, except that the total of such deductions in the year and preceding years shall not exceed the lesser of \$250,000 and the aggregate of

(a) in respect of net taxable capital gains from property other than qualified farm property, \$10,000 in 1985, \$25,000 in 1986, \$50,000 in 1987, \$100,000 in 1988, \$150,000 in 1989 and \$250,000 in 1990 and subsequent taxation years, and

(b) in respect of net taxable capital gains from qualified farm property, \$250,000

and, for this purpose, an individual's "net eligible taxable capital gains" for a particular year means the lesser of

(c) the amount by which his net taxable capital gains for the particular year (computed without reference to any capital gains reserve claimed in the preceding year) exceed the aggregate of

(i) allowable business investment losses realized by him in the particular year, and

(ii) net capital losses of other taxation years deducted by him from taxable income for the particular year, and

(d) the amount by which the aggregate of his net taxable capital gains (computed without reference to any capital gains reserve claimed in the preceding year) realized by him in or before the particular year and after 1984 exceeds the aggregate of

(i) allowable business investment losses realized by him in or before the particular year and after 1984,

(ii) net capital losses from before 1985 deducted by him after 1984 and in or before the particular year from income other than taxable capital gains, and

(iii) net capital losses from after 1984 deductible by him from income, other than taxable capital gains, in the year preceding his death

and, in determining an individual's special capital gains deduction for the 1985 taxation year, his net taxable capital gains for the year shall be reduced by the amount by which his special farm gain registered retirement savings plan contributions for 1985 in respect of gains realized on the disposition in 1985 of qualified farm property exceed amounts included in his 1985 income in respect of registered retirement savings plans.

**Business Investment Loss**

(2) That, for dispositions of property after 1985,

(a) a business investment loss arise only on a disposition of shares of or debt owing by a small business corporation as defined in paragraph 70(11)(c) of the Act, and

(b) a taxpayer's business investment loss for a taxation year be treated as an ordinary capital loss to the extent of his special capital gains deductions for previous taxation years.

**Post-1984 Capital Losses**

(3) That an individual not be permitted to deduct any amount in respect of a capital loss (other than a business investment loss) realized after 1984 from income other than taxable capital gains unless the individual has died in which case the amount of his net capital losses realized after 1984 that can be claimed against income other than taxable capital gains in the year of death and the preceding year will be reduced by the aggregate of special capital gains deductions claimed by him in previous taxation years.

**Pre-1985 Capital Losses**

(4) That for the 1985 and subsequent taxation years, an individual not be permitted to deduct any amount in respect of a net capital loss from before 1985 from income other than taxable capital gains to the extent of the aggregate of special capital gains deductions claimed by him in previous taxation years.

**Investment Income Deduction**

(5) That for the 1985 and subsequent taxation years, taxable capital gains not be eligible for the \$1,000 investment income deduction.

**Small Business Corporation Rollover**

(6) That for the 1988 and subsequent taxation years, the provisions which permit a deferral of \$200,000 of capital gains arising on transfers of shares of a small business corporation by a taxpayer to his children be repealed.

**Capital Cost of Depreciable Property**

(7) That a taxpayer who has acquired depreciable property of a prescribed class in a non-arm's length transaction after May 22, 1985 be treated, for the

purposes of the rules relating to capital cost allowance, as having acquired the property at the transferor's capital cost and, where such capital cost exceeds the taxpayer's actual cost, the excess be treated as capital cost allowance previously claimed by the taxpayer.

**Paid-Up Capital**

(8) That, in respect of certain shares of a class issued by a corporation after May 23, 1985, amendments be made to require a reduction of the paid-up capital of the class by the amount by which the increase in the corporation's paid-up capital as a result of the issue is greater than the amount by which the consideration received by the corporation on the issue of the shares exceeds

(a) in the case of resource flow-through shares, 50% of the related resource expenses, and

(b) in the case of scientific research and share-purchase tax credit shares, the amount of the tax credit associated with the shares.

**Non-Arm's Length Sale of Shares**

(9) That, effective for dispositions of shares after May 22, 1985 by an individual resident in Canada, the special rules in section 84.1 of the Act relating to non-arm's length sales of shares be replaced by rules similar to those in section 212.1 of the Act.

**Anti-Avoidance**

(10) That effective after May 23, 1985, the anti-avoidance rule in subsection 247(1) of the Act be modified to ensure its application to transactions or events designed to convert dividends, including stock dividends, into exempt capital gains.

**Ceasing to be Resident**

(11) That the special \$5,000 capital gains exemption in section 48 of the Act not apply for a taxpayer who ceases to be resident in Canada after 1984.

**Life Insurance Capital Dividend Account**

(12) That effective after May 23, 1985, the provisions relating to the life insurance capital dividend account of a corporation be repealed and the balance in that account on that date and future net proceeds from life insurance policies be added to its capital dividend account.

**Special Farm Gain RRSP Contribution**

(13) That the special deduction for contributions to a registered retirement savings plan no longer be available for contributions made after May 23, 1985 in respect of a capital gain realized on the disposition after 1984 of qualified farm property.

**Stock Dividends**

(14) That stock dividends declared and paid after May 23, 1985 be treated as dividends.

**Filing of Returns**

(15) That for the 1985 and subsequent taxation years,

(a) an individual be required to file a return of income for each taxation year in which he has a capital gain or capital loss, and

(b) a capital loss or the special capital gains deduction may not be deducted in computing the taxable income of an individual for a year

unless the loss or gain is reported in his return of income for the year in which it arises.

**Deemed Dividends**

(16) That with respect to transactions or events occurring after May 23, 1985, subsection 84(8) of the Act be repealed.

**Deferred Profit Sharing Plans**

(17) That the provision which permits a beneficiary under a deferred profit sharing plan to elect in respect of the cost of property received by him on termination of his interest in the plan be repealed for terminations after May 23, 1985 and be replaced by an election to allow a beneficiary to exclude in computing his taxable income one-half of the excess of the fair market value of any employer shares received on the termination over their cost to the plan.

**Employee Stock Options**

(18) That, in respect of a share of a Canadian-controlled private corporation acquired after May 22, 1985 under a stock option agreement by an arm's length employee and held by him for at least 2 years, one-half of any employment benefit relating to the acquisition of the share be included in his taxable employment income for the year in which he disposes of the share rather than be treated as a taxable capital gain.

**Cash Bonus on Canada Savings Bonds**

(19) That one-half of any qualifying cash bonus paid after 1984 by the Government of Canada to a taxpayer in respect of a Canada Savings Bond be treated as interest rather than as a taxable capital gain.

**Prospectors and Grubstakers**

(20) That, with respect to any share acquired after May 22, 1985 by an individual as consideration for prospecting or grubstaking, one-half of the fair market value of the share at the time it was acquired be included in the individual's taxable business or employment income for the year in which he disposes of the share rather than be treated as a taxable capital gain.

**Indexed Security Investment Plans**

(21) That the provisions relating to indexed security investment plans

(a) be repealed effective January 1, 1986 and each indexed security owned under a plan on that date be deemed to have a cost to the planholder equal to such portion of the indexing base of the plan that its fair market value is of the fair market value of all securities held under the plan, and

(b) be modified to treat as an allowable capital loss for the 1986 taxation year any undeducted allowable capital loss at the end of 1985 in respect of a terminated indexed security investment plan.

## **Personal Income Tax**

**Individual Surtax**

(22) That a surtax be imposed on all individuals including trusts other than mutual fund trusts

(a) for the 1985 taxation year,

(i) at a rate of 2 1/2% of that portion of the tax otherwise payable for the year that is in excess of \$6,000, and

(ii) at an additional rate of 2 1/2% of that portion of the tax otherwise payable for the year that is in excess of \$15,000, and

(b) for the 1986 taxation year, at double the rates applicable for the 1985 taxation year,

and for this purpose "tax otherwise payable" is the tax payable under Part I of the Act computed without reference to subsection 120(1) and the share-purchase and scientific research tax credits, the investment and employment tax credits and the credits for political contributions and foreign taxes.

**Federal Tax Reduction**

(23) That the \$50 federal tax reduction be eliminated for the 1986 and subsequent taxation years.

**Indexing**

(24) That for the 1986 and subsequent taxation years, except as otherwise provided in this Motion, the annual adjustment of deductions and other amounts provided in section 117.1 of the Act be computed by reference to that portion of the increase in the Consumer Price Index for the 12 month period ending on the 30th day of September of the immediately preceding taxation year that is in excess of 3%.

**Child Tax Credit**

(25) That

(a) for the 1986, 1987 and 1988 taxation years, the maximum amount of the child tax credit be increased to \$454, \$489 and \$524, respectively, in respect of each eligible child and thereafter be adjusted by reference to that portion of the increase in the Consumer Price Index for the 12 month period ending on the 30th day of September of the immediately preceding taxation year that is in excess of 3%, and

(b) for the 1986 taxation year, the family income threshold beyond which the child tax credit is reduced be set at \$23,500 and thereafter be adjusted as described in subparagraph (a).

**Child Tax Exemption**

(26) That the maximum personal exemption other than the marital or equivalent exemption in respect of a dependent person

(a) under 18 years of age at the end of a year be set at \$560 for the 1987 taxation year, \$470 for the 1988 taxation year and the amount of the annual benefit generally payable in respect of a child under the Family Allowances Act, 1973 for the 1989 and subsequent taxation years, and

(b) at least 18 years of age at the end of a year, other than a person who is dependent by reason of mental or physical infirmity, be set at \$1,420 for the 1986 taxation year, \$1,200 for the 1987 taxation year, \$1,000 for the 1988 taxation year and an amount equal to twice the amount of the personal exemption in respect of a child under the age of 18 for the 1989 and subsequent taxation years

and, that for the 1986 and subsequent taxation years, such exemption be reduced by \$1 for each \$2 of the dependant's income that is in excess of the amount by which the exemption for single status in that year exceeds twice the amount that the exemption in respect of that person would be for the year if he had no income.

**Disability Deduction**

(27) That for the 1986 and subsequent taxation years, the special deduction allowed in computing taxable income of an individual who is blind or necessarily confined to a bed or wheelchair be allowed to any individual who is certified by the Minister of National Health and Welfare as being a person who, during the year, was suffering from a severe and prolonged mental or physical impairment, and for this purpose an impairment will be considered to be

(a) severe only if by reason thereof the individual is markedly restricted in his activities of daily living, and

(b) prolonged only if it has lasted or can be expected to last for a continuous period of at least 12 months.

**Income Attribution**

(28) That the provisions relating to the attribution of income arising with respect to property transferred by a taxpayer to his spouse or to a person under 18 years of age be amended to clarify that attribution applies with respect to property that is transferred after May 22, 1985 to or for the benefit of the transferee and be further amended to apply to income arising with respect to property acquired with the proceeds of any loan made either directly or indirectly by means of a trust or any other means whatever to or for the benefit of such a person that was outstanding on, or made after, May 22, 1985, except that such provisions shall not apply with respect to

(a) any loan for a fixed term, outstanding on May 22, 1985, if such loan is repaid on or before the later of the date it matures and December 31, 1985, or

(b) any loan repayable on demand, outstanding on May 22, 1985, if such loan is repaid before January 1, 1988

and for the purposes of such provisions, rules be provided to ensure that funds transferred or loaned and used to repay indebtedness will be considered as having been transferred or loaned for the purpose for which that indebtedness was incurred.

**Registered Home  
Ownership Savings Plans**

(29) That

(a) effective after December 31, 1985, the provisions relating to registered home ownership savings plans be repealed except for the purposes of subsection 146.2(6.1) of the Act,

(b) any contribution made after May 22, 1985 be deemed not to be a contribution made to, or an amount held under, such a plan, and



(c) amounts received by a beneficiary out of or under such a plan after May 22, 1985 and before 1986 not be included in the beneficiary's income.

**Labour-Sponsored Funds  
Tax Credit**

(30) That, where after May 23, 1985 an individual acquires in a year an eligible share of a prescribed labour-sponsored venture capital corporation in respect of which he is entitled to a tax credit provided by a province of not less than 20% of his purchase price of the share, a federal tax credit be provided to him for the year equal to the amount by which 40% of such purchase price of the share exceeds the amount of the provincial tax credit, provided that the aggregate of all such federal credits for the year be limited to \$700.

**Employee Dues**

(31) That for the 1985 and subsequent taxation years, an employee be entitled to a deduction in computing his income for dues required under the laws of a province to be paid to a parity or advisory committee or similar body.

**Artists' Inventory**

(32) That for the 1985 and subsequent taxation years, an individual engaged in an artistic business be allowed to elect nil as the value of the year-end inventory of such business, and for this purpose "artistic business" means the business of an artist in creating paintings, prints, etchings, drawings, sculptures or similar works of art, other than the business of reproducing such works.

**Donation of Artists'  
Inventory**

(33) That an individual artist who makes a gift to a registered charity or to Her Majesty after 1984 of a work of art created by him that is property described in his inventory be permitted to elect any amount not greater than the fair market value of the property as his proceeds of disposition and the amount of such gift.

**Gift of Intangible Capital  
Property**

(34) That where a taxpayer makes a gift of tangible or intangible capital property to a registered charity or to Her Majesty after 1984 and the fair market value of the property exceeds its adjusted cost base, the taxpayer be permitted to elect any amount between fair market value and adjusted cost base as the proceeds of disposition and the amount of the gift.

**Housing Loans**

(35) That where, after May 23, 1985, an employee has commenced employment at a new work location and by reason thereof has moved to a residence which is at least 40 kilometers closer to his new work location in Canada than was his previous residence, any taxable benefit to the employee in a year relating to interest on a housing loan received from his employer in connection with the move be reduced for a period of 5 years by the amount that would be the benefit if the loan were a \$25,000 interest-free loan outstanding for a period of 5 years from the date on which the loan was made.

**RRSP - Variable Rate  
Annuities**

(36) That, after 1981, an annuity under which payments may be adjusted to reflect changes in a generally quoted market interest rate, qualify as a

retirement benefit under a registered retirement savings plan, provided it meets all other existing requirements for qualification.

**Prizes and Awards**

(37) That any prize or other award received after May 23, 1985 as a benefit from employment or in connection with a business not be eligible for the \$500 exemption for prizes for achievement.

**United Nations Employees**

(38) That for the 1985 and subsequent taxation years, the special tax credit permitted under subsection 126(3) of the Act to an individual who is employed by the United Nations or a specialized agency of the United Nations and subject to a staff levy be modified so that the credit is equal to the amount of tax otherwise payable on his income from that employment.

## **Corporate Income Tax**

**Corporate Surtax**

(39) That a temporary surtax of 5% of federal tax otherwise payable, before any deduction in respect of the share-purchase and scientific research tax credits, the investment and employment tax credits and the credits for political contributions and foreign taxes but after a deduction of 10% of taxable income not earned in any province and a deduction of an additional 5% of taxable income earned in the Nova Scotia offshore area, be imposed on all corporations (other than investment corporations or non-resident-owned investment corporations) for the period commencing on July 1, 1985 and ending on June 30, 1986 but that the surtax not apply to the tax on income eligible for the small business deduction.

**Special Tax**

(40) That with respect to each taxation year or portion thereof that is in the period commencing on January 1, 1986 and ending on December 31, 1987, a bank or a federally or provincially regulated trust and loan corporation, trust corporation or loan corporation be subject to a special deductible tax under a separate Part of the Act, payable quarterly, at an annual rate of 1% of its capital employed in Canada in the year in excess of \$200,000,000 and for this purpose,

(a) "capital employed in Canada in a year" generally consists of that proportion of the total at the end of the preceding year of the corporation's shareholders' equity, tax-paid appropriations for contingencies and similar non-deductible reserves, and certain long-term debt that its Canadian assets is of its total assets,

(b) special deductions from a corporation's capital employed in Canada in a year be provided in respect of investments by the corporation in Canadian corporations related to it or in which it has a significant interest, and

(c) the \$200,000,000 threshold be required to be allocated among a related group of corporations in such manner as they may agree.

**Investment Tax Credit –  
Prescribed Areas**

(41) That the special 50% investment tax credit for certified property for use in manufacturing in prescribed areas be extended for one year to apply for such property acquired before January 1, 1987, and also apply for such property that is a building under construction, or machinery and equipment ordered in writing by the taxpayer, before that date and acquired before 1988.

**Refundable Investment Tax  
Credits**

(42) That the provisions relating to the refundable investment tax credit be amended to allow a Canadian-controlled private corporation, other than an excluded corporation, a full refund of investment tax credits earned by it at the rate of 35% in respect of up to \$2 million of scientific research expenditures (other than expenditures for the acquisition of depreciable property) made in a taxation year and after May 23, 1985 and, for this purpose,

(a) an excluded corporation means a corporation that does not deal at arm's length with, or that is controlled directly or indirectly by, one or more persons exempt from tax under Part I of the Act, and

(b) rules be introduced to prevent the multiplication of the credit or the extension of the \$2 million limit.

**Investment Tax Credit –  
Cape Breton**

(43) That the provisions of the Act relating to the investment tax credit be amended to provide

(a) a 50% investment tax credit in respect of the capital cost of new prescribed property acquired by a taxpayer after May 23, 1985 and before 1993 that has been certified by the Minister of Regional Industrial Expansion as having been acquired for use by the taxpayer in a prescribed activity in respect of a project located on Cape Breton Island where the project has a total capital cost of not less than \$50,000 and has, upon application before July, 1988 by the taxpayer, been approved by that Minister as eligible for the credit, and

(b) such credit be available to reduce federal tax otherwise payable in the year the property is acquired or any of the three preceding or ten succeeding years.

**Investment Tax Credit –  
Base**

(44) That the investment tax credit in respect of property acquired or an expenditure made by a taxpayer after May 23, 1985, other than pursuant to an agreement in writing entered into by the taxpayer on or before that date, be calculated by reference to the cost of the property or the amount of the expenditure less any other assistance, reimbursement or inducement in respect of the property or the expenditure.

**Investment Tax Credit –  
Change of Control**

(45) That, where control of a corporation is acquired after May 23, 1985 other than pursuant to an agreement in writing made before that date, the rules permitting the carryover of the corporation's investment tax credits be restricted by providing that:

(a) investment tax credits earned by the corporation before the acquisition of control may not be used to

(i) obtain a refund of Part VII tax except in respect of a share issued by it more than one month before the acquisition of control, or

(ii) reduce its Part I tax payable for the year in which control was acquired except to the extent that such tax is attributable to income from a business that was carried on by it before the acquisition of control,

(b) investment tax credits earned by the corporation before the acquisition of control may not be used to reduce the corporation's Part I tax payable for a year commencing after the acquisition of control unless the business in respect of which the investment tax credits were earned was carried on by it throughout the year and then to reduce such tax only to the extent that the tax is attributable to income from the business in respect of which the investment tax credits were earned,

(c) investment tax credits earned by the corporation after the acquisition of control may not be used to reduce the corporation's Part I tax payable for the year in which control was acquired except to the extent that such tax is attributable to income from a business that was carried on by the corporation after the acquisition of control, and

(d) investment tax credits earned by the corporation after the acquisition of control may not be used to reduce its Part I tax payable for a year ending before the acquisition of control unless the business in which the investment tax credits were earned was carried on by it throughout the year and then to reduce such tax only to the extent that the tax is attributable to income from the business in respect of which the investment tax credits were earned,

and for this purpose the provisions of subsection 256(8) of the Act will apply.

**Scientific Research Tax Credit**

(46) That a designation of scientific research tax credit not be permitted in respect of

(a) a share issued after October 10, 1984 unless it is a qualifying share as defined in subsection 192(6) of the Act issued before May 23, 1985 or a qualifying share issued on or after May 23, 1985 and before 1986 under the terms of an agreement in writing entered into before May 23, 1985,

(b) a share or debt obligation issued or right granted after October 10, 1984 unless it is issued or granted before 1986 either under the terms of an agreement in writing entered into before October 11, 1984 or pursuant to arrangements evidenced in writing and substantially advanced before October 10, 1984, or

(c) a share or debt obligation issued or right granted after June 15, 1984 by an excluded corporation as defined for the purposes of the refundable investment tax credit.

**Share-Purchase Tax Credit (47) That**

(a) after May 22, 1985, any designation in respect of share-purchase tax credits only be allowed in respect of a qualifying share, and

(b) the definition "qualifying share" in subsection 192(6) of the Act be replaced except for the purposes of the scientific research tax credit by a definition in the Income Tax Regulations applicable in respect of shares issued after May 22, 1985, other than a share issued after that date and before 1986 under the terms of an agreement in writing entered into before May 23, 1985, and for the purposes of such definition, where a person has an obligation to acquire a qualifying share he shall be deemed to own the share.

**PGRT Offset**

(48) That for taxation years ending after March 31, 1985,

(a) a corporation (other than an exempt corporation) be allowed to designate an amount for the year not exceeding the aggregate of

(i) the lesser of its prescribed Canadian oil and gas exploration expense incurred in the year and after March 31, 1985 and its cumulative Canadian exploration expense at the end of the year computed after the deduction for the year in respect thereof, and

(ii) where no deduction is claimed by it for the year with respect to its cumulative Canadian development expense, the lesser of 30% of its prescribed Canadian oil and gas development expense incurred in the year and after March 31, 1985 and 30% of such cumulative development expense at the end of the year determined as if no Canadian resource property were disposed of by it in the year, or

(iii) in any other case, the lesser of 30% of its prescribed Canadian oil and gas development expense incurred in the year and after March 31, 1985 and the amount by which 30% of its cumulative Canadian development expense at the end of the year exceeds the deduction claimed by it for the year in respect thereof,

(b) any amount so designated by a corporation for a taxation year be deducted from its cumulative Canadian exploration expense or cumulative Canadian development expense, as the case may be, and be added to its cumulative offset account for the year,

(c) rules be introduced to permit a corporation to deduct an amount not exceeding its cumulative offset account at the end of the year in computing its income for the year, and to require it to pay by monthly instalments a special tax of 30% of the amount so deducted, and

(d) rules be introduced to permit the flow-through of a corporation's cumulative offset account on a winding-up or amalgamation.

**Successor Rules**

(49) That where at any time control of a parent corporation has been acquired by a person or persons after November 12, 1981 and at that time the parent owned not less than 90% of the issued shares of each class of the capital stock of a subsidiary corporation, the subsidiary corporation be allowed to designate its income for the 1985 or subsequent taxation years derived from resource properties owned by it at that time to be resource income of the parent corporation from resource properties owned by it at that time for the purposes of deducting resource expenses that were not previously subject to the successor corporation rules.

**Canadian Exploration Expense**

(50) That expenses incurred after March 31, 1985 qualify as Canadian exploration expenses where those expenses are incurred for the purpose of bringing an accumulation of petroleum or natural gas (other than a mineral resource) in Canada into production (other than from an oil or gas well) in reasonable commercial quantities and prior to the commencement of such production from the accumulation.

**Oil or Gas Well**

(51) That a well drilled from below the surface of the earth after March 31, 1985 be excluded from the definition of "oil or gas well".

**Research and Development**

(52) That an expenditure made in a taxation year ending after May 23, 1985 qualify for deduction as a scientific research expenditure where

- (a) all or substantially all of the expenditure is attributable to the prosecution, or the provision of facilities for the prosecution, of scientific research, or
- (b) the expenditure is of a current nature and is directly attributable to the prosecution of scientific research.

**Small Business Bonds**

(53) That the provisions relating to small business development bonds and small business bonds be modified

(a) to permit an eligible small business corporation to issue, at any time after May 23, 1985 and before 1988, one or more qualifying bonds provided that each such bond is issued under circumstances of financial difficulty and the issue price does not exceed \$500,000 less the principal amounts at that time of all bonds then outstanding issued by

- (i) the eligible small business corporation and any corporation associated with it,
- (ii) an individual who controls or is a member of a related group that controls the corporation, and
- (iii) a partnership of which any majority interest partner is a person who controls or is a member of a related group that controls the corporation,

(b) to provide rules similar to those referred to in subparagraph (a) to permit an eligible individual or partnership to issue, at any time after May 23, 1985 and before 1988, one or more qualifying bonds, and

(c) to exclude their application to payments made pursuant to a debt obligation, which would otherwise be a qualifying bond, for any period after the later of June 30, 1985 and five years after its date of issue.

**Inducement Payments and Reimbursements**

(54) That amounts received after May 22, 1985, other than prescribed amounts or amounts received pursuant to an agreement in writing made on or before that date, by a taxpayer in the course of carrying on a business or in respect of earning income from property as an inducement, or as a reimbursement or contribution in respect of the cost of property or of an expense incurred or to be incurred, be included in computing the taxpayer's income except to the extent that it reduces the cost of related property or expense or he elects to reduce such cost or expense.

**Life Insurers' Reserves**

(55) That for the 1985 and subsequent taxation years, a reserve mechanism be introduced for life insurers allowing a deduction not exceeding a prescribed amount in respect of claims arising under policies as a result of deaths in the year not reported at the year end.

**Foreign Property**

(56) That the provisions of the Act relating to property held by pension funds and other exempt persons be amended to exclude from the definition of "foreign property" after 1984, shares of a Canadian corporation listed on a prescribed stock exchange in Canada that are convertible to or exchangeable for property that is foreign property.

**Inventory Allowance**

(57) That for taxation years commencing after May 23, 1985, the provisions relating to the 3% inventory allowance be clarified to ensure that it does not apply to currency, other than currency that is held for its numismatic value.

**Term Preferred Shares**

(58) That the provisions in subsection 112(2.2) of the Act limiting the deduction of inter-corporate dividends on shares be extended to dividends on such shares that are issued after May 23, 1985, otherwise than pursuant to an agreement in writing made before that date, and acquired by a specified financial institution in the ordinary course of its business.

## **Administration and Other Measures**

**Source Deductions**

(59) That with respect to amounts required under the Act to be deducted or withheld and remitted by a person after May 23, 1985,

(a) amounts deducted or withheld by the person be deemed to be held in trust by that person for Her Majesty separate and apart from that person's other assets, and

(b) Her Majesty have a charge in priority over other claims or rights on the property of the person for the amount for which the person is liable

in respect of all such amounts that he failed to remit during the 90 day period preceding the earlier of a liquidation, assignment, receivership or bankruptcy of or by the person and the day on which he is assessed under the Act for that amount, and for the purposes of this subparagraph the property of a person includes all his assets whether subject to liens, charges or encumbrances or held free and clear.

**Search and Seizure**

- (60) That after Royal Assent to any measure giving effect to this paragraph,
- (a) the power of authorized officials to enter and conduct an income tax audit or examination in a dwelling house be subject to prior judicial authorization where the occupant does not consent to entry,
  - (b) the power of authorized officials to seize documents and other evidence in the course of an income tax audit or examination without prior judicial authorization be eliminated,
  - (c) the Minister of National Revenue be entitled to demand from third parties information relating to unnamed persons only where the Minister satisfies a judge that such information is for the purposes of verifying compliance with the Act, that there is reason to believe that one or more persons failed or may fail to provide such information and that the information is not otherwise more readily available, and
  - (d) searches and seizures for purposes of the Act be subject to prior judicial authorization and to procedural safeguards similar to those found in the Criminal Code.

**Interest on Payments and Refunds**

- (61) That in respect of the period after a date to be fixed by proclamation following Royal Assent to any measure giving effect to this paragraph,
- (a) interest at a prescribed rate be payable in respect of the payment and refund of penalties assessed under the Act, and
  - (b) interest computed in respect of the payment and refund of tax, interest and penalties be payable on a compound basis in accordance with prescribed rules.

**Non-Resident Withholding Tax**

- (62) That
- (a) the exemption from non-resident withholding tax for interest paid on certain government and long-term corporate debt obligations be extended to apply to interest on such debt obligations issued before 1989, and
  - (b) interest paid or credited after May 23, 1985 to a prescribed international organization or agency be exempt from non-resident withholding tax.

**Political Activities of Registered Charities**

- (63) That for the 1985 and subsequent taxation years, registered charities be permitted to engage in political activities (other than the direct or indirect



support of or opposition to any political party or candidate for public office) that are ancillary and incidental to their charitable purposes provided that substantially all of their resources are devoted to their charitable activities or purposes.

**Receipt of Taxes by Banks**

(64) That after a date to be fixed by proclamation following Royal Assent to any measure giving effect to this paragraph, section 229 of the Act be repealed in order to remove the obligation on Canadian chartered banks to receive payments of taxes without charge.

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**Notice of Ways and Means Motion  
to Amend the Petroleum  
and Gas Revenue Tax Act**

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# Notices of Ways and Means Motion to Amend the Petroleum and Gas Revenue Tax Act

That it is expedient to amend the Petroleum and Gas Revenue Tax Act to provide among other things:

## **Incremental Oil Revenue Tax**

(1) That the special tax on incremental oil revenue be repealed with respect to oil production after 1984.

## **Production and Resource Royalties**

(2) That production royalties and resource royalties received by a taxpayer (other than a non-resident person not carrying on an oil and gas business in Canada) computed by reference to the amount or value of production of petroleum or gas after 1985

(a) not be subject to the withholding tax under Division II of the Act, and

(b) be included in his production revenue under Division I of the Act.

## **Tax Rates – Conventional Production**

(3) That the rate of tax payable under Division I of the Act in respect of petroleum and gas production revenue (other than revenue from the production of petroleum from a mine in a bituminous sands deposit) be:

(a) 13.33% for revenue that may reasonably be attributed to production in 1986,

(b) 10.67% for revenue that may reasonably be attributed to production in 1987,

(c) 8% for revenue that may reasonably be attributed to production in 1988, and

(d) nil for revenue that may reasonably be attributed to production after 1988.

## **Tax Rates – Tar Sands Production**

(4) That the rate of tax payable under Division I of the Act in respect of petroleum and gas production revenue derived from the production of petroleum from a mine in a bituminous sands deposit be:

(a) 12% for revenue that may reasonably be attributed to production in 1986,

(b) 8% for revenue that may reasonably be attributed to production in 1987,

(c) 4% for revenue that may reasonably be attributed to production in 1988, and

(d) nil for revenue that may reasonably be attributed to production after 1988.

**Withholding Tax Rates –  
Conventional Production**

(5) That the rate of tax payable by a non-resident (other than a non-resident person carrying on an oil and gas business in Canada) under Division II of the Act in respect of resource royalties (other than royalties from the production of petroleum from a mine in a bituminous sands deposit) computed by reference to the amount or value of production be:

(a) 13.33% for royalties in respect of production in 1986,

(b) 10.67% for royalties in respect of production in 1987,

(c) 8% for royalties in respect of production in 1988, and

(d) nil for royalties in respect of production after 1988.

**Withholding Tax Rates –  
Tar Sands Production**

(6) That the rate of tax payable by a non-resident (other than a non-resident person carrying on an oil and gas business in Canada) under Division II of the Act in respect of resource royalties computed by reference to the amount or value of production of petroleum from a mine in a bituminous sands deposit be:

(a) 12% for royalties in respect of production in 1986,

(b) 8% for royalties in respect of production in 1987,

(c) 4% for royalties in respect of production in 1988, and

(d) nil for royalties in respect of production after 1988.

**Deduction for Individuals**

(7) That for the 1986 and subsequent taxation years, an individual other than a trust be entitled to a deduction of \$10,000 in computing his production revenue under Division I of the Act.

**PGRT Offset**

(8) That for taxation years ending after March 31, 1985, a corporation be allowed to deduct from its petroleum and gas revenue tax otherwise payable for a taxation year an amount equal to 30% of the increase in its cumulative offset account under the Income Tax Act for the year.

**Exempt Production**

(9) That an exemption be provided for prescribed petroleum and gas production revenue, including production royalties and resource royalties, attributable to production after March 31, 1985.

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# **Notice of Ways and Means Motion to Amend the Canada Pension Plan**

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## **Notice of Ways and Means Motion to Amend the Canada Pension Plan**

That it is expedient to amend the Canada Pension Plan to provide among other things:

(1) That, effective after Royal Assent to any measure giving effect to this paragraph, the provisions dealing with the power to enter premises, to demand information, to search for or to seize documents be amended to reflect the corresponding changes proposed in the Notice of Ways and Means Motion to amend the Income Tax Act tabled in the House of Commons on May 23, 1985 in respect of such powers.

(2) That with respect to amounts required to be deducted and remitted by a person after May 23, 1985 on account of an employee's contribution under the Canada Pension Plan, Her Majesty have a charge on the property of the person which has priority over other claims or rights, for the amount for which the person is liable in respect of all such amounts that he failed to remit during the 90 day period preceding the earlier of a liquidation, assignment, receivership or bankruptcy of or by the person and the day on which the person is assessed under the Plan for that amount, and for the purposes of this paragraph the property of the person includes all his assets, whether subject to liens, charges or encumbrances or held free and clear.

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**Notice of Ways and Means Motion  
to Amend the Unemployment Insurance Act, 1971**

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## **Notice of Ways and Means Motion to Amend the Unemployment Insurance Act, 1971**

That it is expedient to amend the Unemployment Insurance Act, 1971 to provide among other things:

(1) That, effective after Royal Assent to any measure giving effect to this paragraph, the provisions dealing with the power to enter premises, to demand information, to search for or to seize documents be amended to reflect the corresponding changes proposed in the Notice of Ways and Means Motion to amend the Income Tax Act tabled in the House of Commons on May 23, 1985 in respect of such powers.

(2) That with respect to amounts required to be deducted and remitted by a person after May 23, 1985 in respect of employee premiums under the Act, Her Majesty have a charge on the property of the person, which has priority over other claims or rights, for the amount for which the person is liable in respect of all such amounts that he failed to remit during the 90 day period preceding the earlier of a liquidation, assignment, receivership or bankruptcy of or by the person and the day on which the person is assessed under the Act for that amount, and for the purposes of this paragraph the property of the person includes all his assets, whether subject to liens, charges or encumbrances or held free and clear.



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**Draft Regulations**  
**“Prescribed Share” for Purposes of the**  
**Share Purchase Tax Credit**

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## Draft Regulations – Prescribed Share

1. Part LXII of the *Income Tax Regulations* is amended by adding thereto the following section:

“6203.(1) For the purposes of subsection 192(6) of the Act, a “prescribed share” of the capital stock of a taxable Canadian corporation means a share (other than a share acquired by a taxpayer under circumstances referred to in section 66.3 of the Act or as consideration for a disposition of property in respect of which an election was made under subsection 85(1) or (2) of the Act) which is not issued for consideration that consists of or includes another share of the capital stock of the corporation, where at the time it was issued,

- (a) under the terms or conditions of the share or any agreement in respect of the share or its issue
  - (i) the amount of the dividends (in this section referred to as the “dividend entitlement”) that the corporation may declare or pay on the share is not limited to a maximum amount or fixed at a minimum amount at any time by way of a formula or otherwise,
  - (ii) the amount (in this section referred to as the “liquidation entitlement”) that the holder is entitled to receive on the share on the dissolution, liquidation or winding-up of the corporation is not limited to a maximum amount or fixed at a minimum amount by way of a formula or otherwise,
  - (iii) the share may not be converted into any other security, other than into another security of the corporation that would, if it were issued for consideration that does not consist of or include a share of the capital stock of the corporation, be a prescribed share,
  - (iv) the holder of the share may not at any time cause the share to be redeemed, acquired or cancelled by the corporation or any other person with whom the corporation does not deal at arm’s length,
  - (v) no person has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce, at any time, the paid up capital in respect of the share,
  - (vi) no person has, either absolutely or contingently, an obligation at any time to make a loan, payment, transfer, or any other provision by any other means whatever, including the payment of a dividend, that may reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or any other person with whom the corporation

does not deal at arm's length of all or part of the consideration for which the share was issued or as a means of providing assistance to acquire the share,

(vii) no person has, either absolutely or contingently, an obligation to provide at any time any form of guarantee, security or similar indemnity or covenant with respect to the share (including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or any person with whom the holder does not deal at arm's length), and

(viii) neither the corporation nor any person with whom the corporation does not deal at arm's length has, either absolutely or contingently, the right to acquire or cancel, at any time, the share in whole or in part other than for an amount equal to or substantially equal to the fair market value of the share, (determined without reference to any such right);

(b) the corporation, any person with whom the corporation does not deal at arm's length or a partnership or trust of which the corporation (or a person with whom the corporation does not deal at arm's length) is a member or beneficiary, could not reasonably have been expected within two years of that time

(i) to acquire or cancel the share in whole or in part,

(ii) to reduce the paid up capital of the corporation in respect of the share, or

(iii) to make a payment, transfer or other provision, directly or indirectly, by way of a dividend, loan, purchase of shares or in any other manner whatever, that may reasonably be considered to be a repayment or return of all or part of the consideration for which the share was issued or to provide financial assistance to any purchaser of the shares;

(c) no person could reasonably have been expected within two years of that time to provide any form of guarantee, security or similar indemnity or covenant with respect to the share (including the lending of funds to, or the placing of amounts on deposit with, or on behalf of, the holder of the share or any person with whom the holder does not deal at arm's length); and

(d) it could not reasonably have been expected at that time that any of the terms or conditions of the share or any agreement relating to the share or its issue would thereafter be modified or amended within two years of that time in such a manner that the share would not be a prescribed share if it had been issued at the time of such modification or amendment.

(2) For the purposes of subsection (1),

(a) the dividend entitlement of a share shall be deemed not to be limited to a maximum or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the amount of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(a)(i);

(b) the liquidation entitlement of a share shall be deemed not to be limited to a maximum or fixed at a minimum amount where it may reasonably be considered that all or substantially all of the amount of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation that meets the requirements of subparagraph (1)(a)(ii); and

(c) where a corporation has merged or amalgamated with one or more other corporations, the corporation formed as a result of the merger or amalgamation shall be deemed to be the same corporation as, and a continuation of, each of its predecessor corporations and a share issued on the merger or amalgamation as consideration for another share shall be deemed to be the same share as the share for which it was issued.”

2. Section 1 is applicable in respect of shares issued after May 22, 1985.

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**Notice of Ways and Means Motion  
to Amend the Excise Tax Act (1)**

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## **Notice of Ways and Means Motion to Amend the Excise Tax Act (1)**

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

1. That the provisions of the Act relating to the indexing adjustments of the excise tax rates on wines and tobacco products be repealed.

2. That the excise taxes on wines be imposed at the following rates:

(a) 1.72 cents per litre on wines of all kinds containing not more than one and two-tenths per cent of absolute ethyl alcohol by volume;

(b) 20.64 cents per litre on wines of all kinds containing more than one and two-tenths per cent of absolute ethyl alcohol by volume but not more than seven per cent of absolute ethyl alcohol by volume; and

(c) 43 cents per litre on wines of all kinds containing more than seven per cent of absolute ethyl alcohol by volume.

3. That the excise taxes on cigarettes, manufactured tobacco and cigars be imposed at the following rates:

(a) for each five cigarettes or fraction of five cigarettes contained in any package ..... 9.695 cents;

(b) manufactured tobacco, including snuff, but not including cigars and cigarettes ..... 5.900 dollars per kilogram; and

(c) cigars ..... thirty per cent.

4. That the excise tax on gasoline and aviation gasoline be increased by two cents per litre.

5. That an excise tax of two cents per litre be imposed on diesel fuel and aviation fuel other than aviation gasoline.

6. That the provisions of the Act relating to relief from the excise tax on gasoline or aviation gasoline for certain persons not apply to the additional excise tax of two cents per litre on these products provided for in any enactment founded on paragraph 4 of this motion.

7. That diesel fuel for use in the generation of electricity, other than electricity generated for use primarily in the operation of a vehicle, be relieved of the excise tax imposed pursuant to any enactment founded on paragraph 5 of this motion.
8. That delivery of diesel fuel to a retail outlet by or on behalf of the manufacturer or producer thereof be deemed to be a sale for the purposes of the excise tax imposed pursuant to any enactment founded on paragraph 5 of this motion.
9. That the excise tax imposed pursuant to any enactment founded on paragraph 5 of this motion not be payable where the taxable fuel is sold to or imported by a manufacturer licensed for the purposes of Part III of the Act who sells such fuel other than exclusively or directly to consumers.
10. That a person who diverts fuel acquired for a use for which the excise tax imposed pursuant to any enactment founded on paragraph 5 of this motion is not payable, to a use for which such tax is payable, be liable for the excise tax on the fuel so diverted.
11. That the ad valorem rate of consumption or sales tax imposed on the following petroleum products be replaced by specific tax rates as follows:

(a) gasoline, regular	.32 cents per litre;
(b) gasoline, unleaded	.35 cents per litre;
(c) gasoline, premium leaded and unleaded	.36 cents per litre;
(d) diesel fuel	.29 cents per litre;

multiplied by the ad valorem rate of consumption or sales tax, expressed as a decimal number and multiplied by one hundred, which applies to goods other than wines and goods on which a duty of excise is imposed under the Excise Act and goods enumerated in Schedule V to the Act.

12. That the Governor in Council be authorized to make regulations assigning meanings to the expressions used to describe the goods listed in any enactment founded on paragraph 11 of this motion.
13. That the rates per litre specified in any enactment founded on paragraph 11 of this motion for the goods listed in subparagraphs (a), (b) and (c) of that paragraph be adjusted quarterly on the first day of January, April, July and October of each year, commencing on October 1, 1985, so that the rates applicable during the quarter commencing on any such adjustment day are equal to the rounded product of the rates that would have been applicable if no adjustment had been made pursuant to any enactment founded on this paragraph and the ratio, adjusted or altered in such manner as may be prescribed by regulation of the Governor in Council on the recommendation of the Minister of Finance and rounded, that the Industry Selling Price Index for Motor Gasoline for the twelve month period ending on the last day prior to the immediately preceding quarter bears to the Industry Selling Price Index for Motor Gasoline for the twelve month period ending on March 31, 1985.

14. That the rate per litre specified in any enactment founded on paragraph 11 of this motion for the goods listed in subparagraph (d) of that paragraph be adjusted quarterly on the first day of January, April, July and October of each year, commencing on October 1, 1985, so that the rate applicable during the quarter commencing on any such adjustment day is equal to the rounded product of the rate that would have been applicable if no adjustment had been made pursuant to any enactment founded on this paragraph and the ratio, adjusted or altered in such manner as may be prescribed by regulation of the Governor in Council on the recommendation of the Minister of Finance and rounded, that the Industry Selling Price Index for Diesel Fuel for the twelve month period ending on the last day prior to the immediately preceding quarter bears to the Industry Selling Price Index for Diesel Fuel for the twelve month period ending on March 31, 1985.

15. That the rate of Telecommunication Programming Services Tax be increased to seven per cent.

16. That the ad valorem consumption or sales tax be imposed at the following rates:

(a) seven per cent on the sale price of goods enumerated in Schedule V to the Act;

(b) fourteen per cent on the sale price of wine and all goods on which a duty of excise is imposed under the Excise Act, or would be imposed under that Act were the goods produced or manufactured in Canada; and

(c) eleven per cent on the sale price of all goods not specified in any enactment founded on paragraph 11 or subparagraph 16(a) or (b) of this motion.

17. That printed matter imported by a government or a department, agency or representative thereof for distribution without charge for the promotion of tourism be exempt from the consumption or sales tax.

18. That when printed matter is produced by or purchased on the order of a government or a department, agency or representative thereof for distribution without charge for the promotion of tourism, and the consumption or sales tax thereon has been paid, the Minister of National Revenue be authorized, on application by that government or department, agency or representative within two years from the time the printed matter was so produced or purchased, to pay to the applicant an amount equal to the tax so paid.

19. That logging boom chain for use exclusively in the operation of logging be exempt from the consumption or sales tax.

20. That the exemption from the consumption or sales tax for the energy conservation equipment mentioned in Part XVIII of Schedule III to the Act be repealed.



21. That the following goods be added to the lists of construction materials and equipment for buildings in Schedule V to the Act:

(a) heat pumps when designed for use in permanently installed heating systems for buildings;

(b) heat recovery units and devices for extracting heat from exhaust air or waste water for recovery of energy;

(c) solar panels and tubes designed for collecting and converting solar energy into heat for use in solar heating systems;

(d) thermal insulation designed for pipes and ducts used in buildings and mechanical systems; wrapping materials designed exclusively for use with such insulation;

(e) wood burning stoves and wood burning space heaters; and

(f) loading dock seals and shelters designed to conserve heated or refrigerated air during loading and unloading.

22. That the exemption from the consumption or sales tax for food and drink for human consumption be amended to exclude

(a) non-alcoholic malt beverages,

(b) carbonated beverages and goods for use in the preparation of carbonated beverages,

(c) non-carbonated fruit juice beverages and fruit flavoured beverages, other than milk based beverages, containing less than 25 per cent by volume of

(i) a natural fruit juice or combination of natural fruit juices, or

(ii) a natural fruit juice or combination of natural fruits that have been reconstituted into the original state,

and goods which, when added to water, produce a beverage described in any enactment founded on paragraph 22(c) of this motion, and

(d) candies, confectionery that may be classed as candy, and all goods sold as candies, such as candy floss, chewing gum and chocolate, whether naturally or artificially sweetened, and including fruits, seeds, nuts and popcorn when coated or treated with candy, chocolate, honey, molasses, sugar, syrup or artificial sweeteners.

23. That a person who manufactures or produces carbonated beverages or non-carbonated fruit flavoured beverages, other than alcoholic beverages, having less than 25 per cent by volume of natural fruit content in a retail outlet for sale in that outlet exclusively and directly to consumers for immediate consumption, be

deemed not to be, in relation to any such beverage so manufactured or produced by him, the manufacturer or producer thereof.

24. That the exemption from the consumption or sales tax for feeds for animals, fish, fowl or bees, and supplements for addition to such feeds, in Part V of Schedule III to the Act be limited to feeds, and supplements for addition to such feeds, for animals, fish, fowl or bees which are ordinarily raised to produce or to be used as food for human consumption.

25. That "health goods" be defined as any material, substance, mixture, compound or preparation, of whatever composition or in whatever form, sold or represented for use in the diagnosis, treatment, mitigation or prevention of a disease, disorder, abnormal physical state, or the symptoms thereof, in human beings or animals or for use in restoring, correcting or modifying organic functions in humans or animals.

26. That the definition "manufacturer or producer" in subsection 2(1) of the Act be amended to include any person who sells health goods, other than a person who sells such goods exclusively and directly to consumers.

27. That a manufacturer or producer of health goods described in any enactment founded on paragraph 26 of this motion, who imports health goods into Canada, be deemed to be the manufacturer or producer in Canada of the health goods so imported and not the importer thereof, and that the goods so imported be deemed to be goods produced or manufactured in Canada and not imported goods.

28. That the consumption or sales tax not be payable on health goods sold to a licensed manufacturer who is a manufacturer or producer described in any enactment founded on paragraph 26 of this motion.

29. That the exemption from the consumption or sales tax for health goods described in section 1 of Part VIII of Schedule III to the Act be limited to

(a) any drug described in Schedule D to the Food and Drugs Act,

(b) any drug containing a drug described in Schedule F to the Food and Drug Regulations made by the Governor in Council pursuant to the Food and Drugs Act,

(c) any drug containing a drug or other substance included in Schedule G to the Food and Drugs Act, and

(d) any drug containing a narcotic included in the Schedule to the Narcotic Control Act other than a drug or mixture of drugs that may be sold by a pharmacist without a prescription pursuant to any regulations made by the Governor in Council pursuant to the Narcotic Control Act.

30. That the exemption from the consumption or sales tax for those goods mentioned in sections 8, 9, 10, 17 and 21 of Part VIII – Health – of Schedule III to the Act be repealed.

31. That sanitary napkins, tampons, belts for sanitary napkins and articles and materials for use exclusively in their manufacture or production be exempt from the consumption or sales tax.
32. That contraceptives and articles and materials for use exclusively in their manufacture or production be exempt from the consumption or sales tax.
33. That subsection 26(4) of the Act, that deems manufacturers and producers of certain structures and building components not to be the manufacturer or producer of these products for certain purposes of the Act, be repealed.
34. That mobile homes, modular building units, ready-mix concrete and asphalt paving mixtures be added to the list of construction materials in Part I of Schedule V to the Act.
35. That buildings and other structures, and structural building sections for incorporation into buildings or other structures, manufactured or produced by a person deemed by subsection 26(4) of the Act not to be the manufacturer or producer of the products so manufactured or produced be added to the list of construction materials in Part I of Schedule V to the Act.
36. That the consumption or sales tax be imposed on only seventy per cent of the sale price of mobile homes and modular building units.
37. That "mobile home" be defined as a trailer unit not less than three metres wide by eight metres long, equipped with complete plumbing, electrical and heating facilities and designed to be towed on its own chassis to a building site for installation on a foundation and connection to service facilities at that site and to be used for residential, commercial, educational, institutional or industrial purposes, but not to include any free standing appliances or furniture sold with the unit, or any trailer for recreational use such as travel trailers, motor homes and camping trailers.
38. That "modular building unit" be defined as a building component or unit designed for installation on a foundation and comprised of at least one room or area with finished walls, floors and ceilings, including installed plumbing, heating and electrical equipment appropriate to that room or area, the manufacture and assembly of which are completed or substantially completed prior to delivery to the construction site and which, when installed on a foundation at the site, with or without other similarly manufactured components or units, will form a complete residential, industrial, educational, institutional or commercial building, but not to include any free standing appliances or furniture sold with the unit.
39. That the definition "manufacturer or producer" in subsection 2(1) of the Act be amended to include any person who sells prerecorded video cassettes, other than a person who sells such goods exclusively and directly to consumers, and that for purposes of this definition, the term "consumers" not include a person who rents or leases prerecorded video cassettes to other persons.
40. That a manufacturer or producer of prerecorded video cassettes described in any enactment founded on paragraph 39 of this motion, who imports prerecorded

video cassettes into Canada, be deemed to be the manufacturer or producer in Canada of the prerecorded video cassettes so imported and not the importer thereof, and that the goods so imported be deemed to be goods produced or manufactured in Canada and not imported goods.

41. That the consumption or sales tax not be payable on prerecorded video cassettes sold to or imported by a manufacturer or producer described in any enactment founded on paragraph 39 of this motion who is a licensed manufacturer under the Act.

42. That the Minister of National Revenue be authorized to determine the value for tax of prerecorded video cassettes for the purpose of calculating the consumption or sales tax payable by the licensed manufacturer who produced the goods in Canada for a non-resident person who is the manufacturer or producer of those prerecorded video cassettes pursuant to any enactment founded on paragraph 39 of this motion and who fails to apply for a licence as required by section 31 of the Act.

43. That penalty and interest on late payments of taxes payable or collectible under the Act, other than Part I, not be payable where the taxes are paid in full and the aggregate of the penalty and interest imposed on the amount paid after the time prescribed for payment is less than ten dollars.

44. That where a licensed manufacturer or licensed wholesaler has purchased goods and has incorrectly stated or certified that the goods were being purchased for a use or under conditions that render the sale exempt from tax and the licensed manufacturer or licensed wholesaler from whom he purchased the goods establishes that he acted in good faith and with due care and diligence in accepting the statement or certificate of the purchaser, the purchaser alone be liable for payment of the tax and any penalty and interest imposed on late payment.

45. That the Governor in Council be authorized to make regulations designating certain classes of goods as ships' stores and prescribing limits on the quantities of such goods and classes of conveyances on which such goods may be used for the purposes of determining any refund or drawback that may be provided of taxes imposed under the Act.

46. That where a corporation has committed an offence under the Act, every officer, director or agent of the corporation, who directed, authorized, assented to, acquiesced in, or participated in the commission of the offence, be a party to and guilty of the offence and liable on summary conviction to the punishment provided for the offence, whether or not the corporation has been prosecuted or convicted.

47. That the relief from payment of excise tax on partly manufactured goods be restricted to goods for incorporation into articles or products that are subject to excise tax but on which the tax has not yet been levied.

48. That the definition "partly manufactured goods" in subsection 26(1) of the Act be restricted to goods for incorporation into articles that are subject to the consumption or sales tax but on which the tax has not yet been levied.

49. That where tax under Part III or V of the Act has been paid in respect of any goods that a licensed manufacturer gives away as free replacement parts under a written warranty given in respect of goods of which he is the manufacturer under the Act and into which such parts are to be incorporated, and the amount, if any, charged for the warranty is included in the sale price charged by him for the goods into which the parts are to be incorporated or, if those goods are imported goods, in the duty paid value thereof, the Minister of National Revenue be authorized, on application by the manufacturer who gave away the goods as free replacement parts, within two years of when the parts were given away, to pay to him a refund of an amount equal to the amount of the tax.

50. That the Natural Gas and Gas Liquids Tax be repealed.

51. That any right to a refund or payment of taxes or other monies, or to a deduction in respect of such refund or payment, arising under section 44 of the Act be extinguished unless application in writing for such refund, payment or deduction is made within four years after the earliest time at which such an application could have been made and that no refund or payment be paid and no deduction be authorized in respect thereof where no application was made for a refund or payment of the taxes or monies or a deduction in respect of such refund or payment in that four year period.

52. That any right to a refund or payment of taxes or other monies, or to a deduction in respect of such refund or payment, be extinguished unless application in writing for such refund, payment or deduction is made within two years after the earliest time at which such an application could have been made and that no refund or payment be paid and no deduction be authorized in respect thereof where no application was made for a refund or payment of the taxes or monies or a deduction in respect of such refund or payment in the two year period.

53. That section 63 of the Act be replaced with a provision whereby every person who knowingly collects any sum as a tax payable under the Act where such a sum is not then payable under the Act and would not become so payable upon the enactment of legislation founded on a notice of ways and means motion that has been tabled in the House of Commons is guilty of an offence and liable on summary conviction to a fine in an amount equal to not less than one hundred per cent and not more than one hundred and twenty-five per cent of the sum so collected.

54. That Part III.1 of the Act be repealed.

55. That any enactment founded on

(a) paragraph 31 come into force on March 22, 1984;

(b) paragraphs 1, 2, 17, 19, 32, 47, 48 and 52 come into force on May 24, 1985;

(c) paragraphs 11 to 14 and 50 come into force on June 1, 1985;

(d) paragraphs 20 to 30 and 33 to 42 come into force on July 1, 1985;

(e) paragraphs 4 to 10 come into force on September 3, 1985;

(f) paragraphs 15 and 16 come into force on January 1, 1986; and

(g) paragraphs 43 to 46, 49, 53 and 54 come into force on the first day of the second month following Royal Assent to such enactment.

56. That any enactment founded on paragraph 3 of this motion come into force on May 23, 1985 at 3:30 o'clock in the afternoon eastern standard time.

57. That any enactment founded on paragraph 51 of this motion come into force on May 24, 1985 and apply only to any refunds or payments to be paid and to any deductions in respect of a refund or payment to be authorized on or after that date where the entitlement to the refund or payment arose prior to May 24, 1985, whether an application in writing therefor is made or proceedings therefor are commenced on, before or after that date.

58. That any enactment founded on paragraph 18 of this motion come into force on May 24, 1985 and apply in respect of taxes paid on or after that date.

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**Notice of Ways and Means Motion  
to Amend the Excise Tax Act (2)**

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## **Notice of Ways and Means Motion to Amend the Excise Tax Act (2)**

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

1. That the authority to grant refunds in respect of overpayments of tax and taxes paid in error be replaced with a similar authority to make payments in an amount equal to the amount of any moneys paid in error, otherwise than pursuant to an assessment, and that such amount be payable to the person who paid those moneys in error if that person files a refund application for that amount with the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance within two years after the moneys were so paid in error.
2. That the refund, rebate, drawback and other payment provisions of the Act be amended to clarify entitlements and procedures.
3. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be authorized to prescribe forms and the information to be given thereon.
4. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be required, on receipt of a refund application, to determine the amount payable to the applicant, to notify the applicant of his determination and to pay to the applicant any amount which he determines is payable to him.
5. That any person be permitted to claim (instead of filing a refund application in respect of Part I of the Act and subject to assessment) a deduction from any payment of tax or other sums under Part I of the Act if the return in which the deduction is claimed is filed with the Minister of Finance within the time limited for filing a refund application in respect of the subject matter of the deduction.
6. That any person, other than a person who has been otherwise directed by the Minister of National Revenue, be permitted to claim (on such grounds and in such circumstances as the Minister may prescribe, instead of filing a refund application in respect of Parts II to V of the Act and subject to assessment) a deduction from any payment of tax or other sums under section 17 or 50 of the Act if the return in which the deduction is claimed is filed within the time limited for filing a refund application in respect of the subject matter of the deduction.
7. That where a person so requests in a refund application in respect of Parts II to V of the Act, the Minister of National Revenue be permitted to authorize a deduction from any payment of tax or other sum under section 17 or 50 of the Act



instead of paying the amount otherwise payable, and that where a deduction has been authorized, no interest be payable in respect of the amount otherwise payable for any day after notice of the Minister's determination respecting the refund application is sent to the applicant.

8. That persons who are liable for tax under Part III, IV or V of the Act be required to report, in the monthly return required under paragraph 50(1)(b) of the Act, their sales for the last preceding month, that the authority of the Minister of National Revenue to authorize the making of a return in respect of an accounting period of less than one month be replaced with an authority to authorize the making of a return in respect of an accounting period of not less than twenty-one days and not more than thirty-five days, and that any person so authorized be required to file such return and pay the tax payable for that period not later than the last day of the first accounting period succeeding that in which the tax became payable.

9. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance

(a) be authorized to accept security for the payment of any tax or other sum payable under the Act,

(b) be required to accept adequate security furnished for the payment of any tax or other sum that is the subject of an objection or appeal, and

(c) be required, on the request of the person by whom or on whose behalf security has been so given, to surrender any such security to the extent that the value thereof, at the time of the request, exceeds the amount of the tax or other sum payable for payment of which the security was given,

and that the monthly penalty of one-half of one per cent for default in payment of tax or other sums under Parts II to VI of the Act not apply, during the time that security is so held by the Minister of National Revenue, to the extent of the value of the security at the time it was given.

10. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be authorized

(a) to assess any person for any tax or other sum payable in respect of any matter by him under the Act within four years after the tax or other sum became payable and to make such additional assessments, as the circumstances require, within the time so limited,

(b) to vary an assessment or to reassess a person in respect of any matter covered by an assessment of that person, within the time otherwise limited for assessing that person, or at any time in accordance with a decision on an objection or appeal respecting that assessment, and

(c) to assess or reassess a person in respect of any matter at any time where, in respect of that matter, that person has made a misrepresenta-

tion attributable to his neglect, carelessness or willful default or has committed fraud in filing a return or in supplying information under the Act or in failing to do so.

11. That any person who may be assessed be permitted

(a) to waive, for the time specified in the waiver, the time limited to the Minister of National Revenue or the Minister of Finance for assessing that person in relation to any matter specified in the waiver, and

(b) to revoke any waiver so given on six months notice to the Minister of National Revenue or the Minister of Finance, as the case may require,

and that such Minister be authorized, where he is entitled to assess a person by virtue only of a waiver so given, to assess that person in relation to any matter specified in the waiver not later than the last day of the period specified in the waiver, or where such waiver has been revoked, not later than six months after notice of the revocation is filed with him.

12. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be authorized, in making an assessment, to determine whether a refund or other payment, other than a rebate or drawback, is payable to the person being assessed, and that for that purpose, an amount that would otherwise be payable to him had he filed an application therefor on the day the assessment is made be deemed, for the purposes of the assessment, to be so payable to him without a refund application therefor being filed, if the assessment is made within the time limited by the Act for filing a refund application for that refund or payment.

13. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be authorized to allow a credit against taxes and other sums assessed in an amount equal to the amount of the refund or other payment, other than a rebate or drawback, that would otherwise be payable to the person being assessed had he filed a refund application therefor on the day the assessment is made and the time limited for filing such refund application had been four years instead of the time otherwise limited by the Act, except that

(a) no such credit include the amount of any refund or payment which is otherwise payable to the person being assessed, and

(b) the aggregate of such credits allowed not exceed the aggregate of any tax and other sums assessed remaining unpaid by the person being assessed for the period commencing four years before the day on which the assessment is made and ending immediately before two years before that day.

14. That any person assessed be notified of the assessment, and that such notice set out the amounts of any tax or other sums payable under the Act by the person assessed and remaining unpaid, the amounts of any credits against taxes and other sums payable which may be allowed, the amounts of any refunds or other

payments determined to be payable to the person being assessed and the net amount payable by or to the person assessed, and that

(a) the net amount payable by the person assessed be recoverable in accordance with the procedures set out in any enactment founded on paragraphs 30 and 31 of this motion, and

(b) the Minister of National Revenue or the Minister of Finance, as the case may be, be required to pay to the person assessed the net amount payable to him, together with interest thereon at the rate prescribed under the Act from the day the assessment is made to the day payment of the amount payable is sent to the person assessed.

15. That where a refund application is rejected by the Minister of National Revenue or the Minister of Finance, as the case may be, or where a person is assessed for taxes or other sums payable under the Act, the applicant or person assessed be entitled, within ninety days after notice of the assessment or the Minister's determination respecting the refund application is sent to him, to file a notice of objection with such Minister respecting the assessment or determination.

16. That upon receipt of a notice of objection, the Minister of National Revenue or the Minister of Finance, as the case may be, be required to reconsider the determination or assessment to which the notice of objection relates and to confirm, vary or vacate the determination or assessment or reassess, as the case may require.

17. That any person who has filed a notice of objection with the Minister of National Revenue be permitted to appeal to the Tariff Board or Federal Court – Trial Division

(a) within ninety days after notice of the Minister's decision is sent to him,

(b) where the Minister consents to waiving reconsideration of any determination or assessment to which the notice relates, or

(c) at any time, where the Minister has failed to send notice of his decision to him within one hundred and eighty days after receiving the notice of objection, except that where such notice of the Minister's decision is subsequently sent to the person objecting, such appeal may be commenced only within ninety days after such notice is sent.

18. That where a person has filed a notice of objection respecting an assessment with the Minister of National Revenue and the Minister thereafter reassesses that person in respect of any matter covered by the original assessment, that person be permitted, without filing a new notice of objection,

(a) to appeal the reassessment to the Tariff Board or Federal Court – Trial Division within ninety days after notice of the reassessment is sent to him, or

(b) to amend any previous appeal that has been instituted with respect to the original assessment.

19. That any party to an appeal before the Tariff Board be permitted to appeal the decision of the Board to the Federal Court – Trial Division within one hundred and twenty days after the decision is sent to him.

20. That any person who has filed a notice of objection with the Minister of Finance in respect of Part I of the Act be permitted to appeal to the Federal Court – Trial Division within the times limited by and in the circumstances described in any enactment founded on paragraph 17 or 18 of this motion.

21. That any purchaser of conditionally relieved goods who has paid an amount in respect of tax under the Act to the vendor of the goods be permitted, in respect of the purchase of the goods,

(a) to object to a decision of the Minister of National Revenue rejecting a refund application, or to an assessment, in respect of the purchase by filing a notice of objection with the Minister within 30 days after the time otherwise limited to the vendor for doing so, or

(b) to appeal, within 30 days after the time otherwise limited to the vendor for doing so, to the Tariff Board or Federal Court – Trial Division from a decision of the Minister of National Revenue respecting a notice of objection filed in respect of the purchase by the vendor of the goods,

and to receive any resulting refund or payment in respect of those goods, if

(c) the vendor of the goods failed to file a notice of objection with the Minister or to appeal from the decision of the Minister respecting the notice of objection, as the case may be, within the time limited for doing so, or

(d) the vendor of the goods unconditionally assigned to the purchaser his rights to so object or appeal, as the case may be, and to receive any refund or payment, and the Minister has been notified of the assignment within the time limited to the purchaser for instituting the proceedings to which the assignment relates.

22. That the Tariff Board be empowered to make an order extending the time limited for filing a notice of objection in respect of the Act, other than Part I, or for appealing to the Board and that the Federal Court – Trial Division be empowered to make an order extending the time limited for filing a notice of objection in respect of Part I of the Act or for appealing to the Court in respect of any Part of the Act.

23. That every appeal before the Federal Court – Trial Division be deemed to be an action to which the Federal Court Act and the Federal Court Rules apply, subject to such exceptions as are consistent with any enactment founded on this motion.

24. That the Tariff Board and Federal Court – Trial Division be empowered

(a) to permit any person to intervene in an appeal as a party thereto if he establishes that he has a substantial interest in the subject matter of the appeal,

(b) to permit any other person to render assistance to it by way of argument,

(c) to hear an appeal in camera if it is satisfied that the circumstances of the case justify in camera proceedings, and

(d) to dispose of any appeal by dismissing it, by varying or vacating the assessment or determination or by referring the assessment or determination back to the Minister of National Revenue or the Minister of Finance, as the case may require, for reconsideration.

25. That on the disposition of an appeal, the Federal Court – Trial Division be empowered to order, in its discretion, the payment of costs by any party, and that the Minister of National Revenue be required, where he brings an appeal from a decision of the Tariff Board and the amount of the tax, refund or payment in dispute does not exceed ten thousand dollars, to pay all reasonable and proper costs of the respondent in respect of the appeal.

26. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be permitted to refer any question relating to the Act to the Federal Court – Trial Division for hearing and determination.

27. That where it is established as a result of a decision on an appeal that an amount is payable to the person who instituted the appeal or that an amount assessed for which security has been given is not payable, the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance

(a) be required, where that person so agrees and notwithstanding an appeal by the Minister from that decision, to pay the amount payable or to discharge any security so given in respect of the amount assessed that is not payable, and

(b) be permitted, where any other person who has filed a notice of objection or instituted an appeal in respect of the same or a similar issue so agrees, to make a payment to or discharge any security given by that other person.

28. That where a decision referred to in any enactment founded on paragraph 27 of this motion is reversed on the final disposition of that appeal, the monthly penalty of one-half of one per cent for default in payment of any tax or other sums payable under the Act not apply to any amount payable as a result of that final disposition from the time of the original decision to the time the appeal is finally disposed of.

29. That any taxes or other sums payable under any Part of the Act be deemed to be debts due to Her Majesty in right of Canada and be recoverable as such by action commenced in the Federal Court or any other court of competent jurisdiction within the time limited by any enactment founded on this motion for making an assessment or by any other means provided for in the Act.

30. That no proceedings be taken under the Act for the collection of taxes or other sums payable unless a judgement has been obtained or an assessment has been issued, and that where an assessment has been issued, no such proceedings be taken

(a) during the ninety day period limited for filing a notice of objection to the assessment,

(b) to the extent that such amounts are the subject of an objection, until the decision of the Minister of National Revenue or Minister of Finance, as the case may require, respecting the objection has been sent to the person assessed and the ninety day period limited for appealing to the Tariff Board or Federal Court – Trial Division has expired,

(c) to the extent that such amounts are the subject of an appeal before the Tariff Board or Federal Court – Trial Division, until the Board or Court renders its decision on the appeal, or

(d) to the extent that such amounts are the subject of a reference to the Federal Court – Trial Division and the person assessed will be bound by the decision of the Court, until the Court renders its decision on the reference,

except that where such amounts are the subject of an objection or appeal and the person assessed has agreed with the Minister to defer further proceedings in respect of the assessment pending the outcome of another appeal on the same issue, such collection proceedings may be taken, once the decision on that other appeal has been rendered, to recover any amounts assessed in a manner consistent with the decision on that other appeal.

31. That the Minister of National Revenue or, in the case of Part I of the Act, the Minister of Finance be permitted to take collection proceedings forthwith under the Act for the recovery of amounts assessed where it may reasonably be considered that collection thereof would be jeopardized by any delay and a direction to pay forthwith has been sent to the person assessed, and that the question of whether the direction was justified in the circumstances be subject to judicial review.

32. That the Tariff Board and Federal Court – Trial Division be empowered, on application by the Minister of National Revenue or, in the case of Part I of the Act, by the Minister of Finance, to impose a penalty not exceeding ten per cent of the amount in controversy if it determines that there were no reasonable grounds for the appeal and that one of the main reasons for instituting the appeal was to defer the payment of tax or other sums payable under the Act.

33. That with respect to section 57 of the Act,

(a) the power of authorized officials to seize, take away and retain any document in the course of an audit or inspection be removed,

(b) a power to make copies of documents that are made available for inspection or that are produced under the Act be introduced,

(c) the power to require information in relation to unnamed persons from third parties be subject to the prior approval of a judge, upon being satisfied that such information is for the purposes of verifying compliance with the Act, that there is reason to believe that one or more persons have failed or may fail to provide such information and that the information is not otherwise more readily available, and

(d) any court presiding over proceedings for failure to comply with a requirement to provide information or to produce documents be authorized to order compliance with the requirement.

34. That presumptions and rules be established respecting service and proof of documents, notices and records and that such other rules, procedures, conditions and provisions be established as are consistent with the intent of any enactment founded on this motion.

35. That the spent transitional provision in subsection 4(2.1) of the Act be repealed.

36. That insurance brokers and agents be required to report, in the annual return of information required under Part I of the Act regarding insurance placed with unauthorized insurers, the premiums payable with respect to such insurance.

37. That the rate of interest applicable to unpaid amounts under Part I of the Act be changed from six per cent per annum to the rate prescribed for other purposes of the Act.

38. That any enactment founded on this motion come into force on the first day of the second month following Royal Assent to such enactment.

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**Notice of Ways and Means Motion  
to Amend the Excise Act**

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## **Notice of Ways and Means Motion to Amend the Excise Act**

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

1. That Part V of the schedule to the Act relating to the indexing adjustments of excise duty rates be repealed.

2. That the excise duty on the spirits specified in subsection 1(1) of Part I of the schedule to the Act be imposed at the rate of 10.32 dollars on every litre of absolute ethyl alcohol distilled in Canada and so in proportion for any less quantity than one litre (1 L).

3. That the excise duties on beer be imposed at the following rates:

(a) on all beer or malt liquor containing more than 2.5 per cent absolute ethyl alcohol by volume, 18.58 dollars per hectolitre;

(b) on all beer or malt liquor containing more than 1.2 per cent absolute ethyl alcohol by volume but not more than 2.5 per cent absolute ethyl alcohol by volume, 9.288 dollars per hectolitre; and

(c) on all beer or malt liquor containing not more than 1.2 per cent absolute ethyl alcohol by volume, 1.720 dollars per hectolitre.

4. That the excise duties on tobacco, cigars and cigarettes be imposed at the following rates:

(a) on manufactured tobacco of all descriptions except cigarettes, per kilogram actual mass, 2.207 dollars;

(b) on cigarettes having a mass of not more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, 9.547 dollars per thousand;

(c) on cigarettes having a mass of more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, 11.27 dollars per thousand;

(d) on cigars, 5.260 dollars per thousand; and

(e) on Canadian raw leaf tobacco when sold for consumption, per kilogram actual mass, 57.40 cents.

5. That the constraints upon any person who makes or brews beer for the use of himself and his family members who reside with him be relaxed by repealing the requirement to obtain a letter of consent and allowing a person to brew beer without payment of excise duty where such beer is brewed for non-commercial use and is solely for personal or family consumption or to be given away without charge and not for sale.

6. That utensils and apparatus for use by a person in brewing beer for non-commercial use and solely for the use of himself and his family or to be given away without charge be exempt from the provisions of the Act in respect of the possession of brewing apparatus by unlicensed persons.

7. That every person who makes or brews beer for non-commercial use and solely for the use of himself and his family or to be given away without charge and who sells any such beer or puts any such beer to a commercial use be guilty of an indictable offence and liable to the penalties provided in subsection 177(1) of the Act for the brewing of beer without a licence.

8. That the authority in the Act to make regulations regarding the destruction of beer and the refunding of all or part of any excise duty paid on destroyed beer be amended to delete the requirement for destruction to occur in a brewery and to require that any refund granted be paid to the brewer.

9. That the authority in the Act to make regulations regarding the re-working of tobacco and cigars and the refunding of all or part of any excise duty paid on re-worked products be amended to include the destruction of such products and to require that any refund be paid to the manufacturer of the products.

10. That the requirement to make a determination of a quantity or volume of alcohol, spirits, or absolute ethyl alcohol in a manner prescribed by departmental regulations using instruments specified in the regulations, be amended to include any manner, instruments or tanks approved by the Minister of National Revenue.

11. That the Minister of National Revenue be authorized to approve the manner of determining a quantity or volume of alcohol, spirits or absolute ethyl alcohol and the instruments or tanks to be used in such determination.

12. That subsection 56(2) of the Act be replaced with a provision whereby goods subject to excise duty may be removed without payment of duty from a bonding warehouse established under the Act

(a) to a bonded warehouse licensed as such under the Customs Act when such goods are

(i) designated for delivery as ships' stores,

(ii) for sale to accredited representatives in Canada of any other country, or

(iii) for export, or

(b) to a duty free shop licensed as such under the Customs Act when such goods are for sale to persons who are about to leave Canada, if they are delivered and sold in accordance with departmental regulations.

13. That any enactment founded on paragraphs 1 to 3, 5 to 7 and 12 come into force on May 24, 1985.

14. That any enactment founded on paragraph 4 of this motion come into force on May 23, 1985 at 3:30 o'clock in the afternoon eastern standard time.

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**Notice of Ways and Means Motion  
to Amend the Customs Tariff**

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## Notice of Ways and Means Motion to Amend the Customs Tariff

1. That subsection 2(1) of the *Customs Tariff* be amended by adding the following definition immediately after the definition of "alloy":

*" "Deputy Minister" means the Deputy Minister of National Revenue for Customs and Excise;"*

2. That subsection 3.1(2) of the said Act be repealed and the following substituted therefor:

*"(2) Subject to subsection (3), where no rate is set out in column (4) of Schedule A in respect of any goods, the rate for the General Preferential Tariff shall be:*

*(a) in the case of goods enumerated in tariff items 43807-1, 43810-1, 43819-1, 43824-1, 43825-1, 43826-1, 43829-1 and 43832-1, the rate that would be applicable if the goods were entered under the Most-Favoured-Nation Tariff reduced by one-third; and*

*(b) in any other case, the rate that equals the lesser of*

*(i) the rate, excluding any discount authorized by section 5, that would be applicable if the goods were entered under the British Preferential Tariff, and*

*(ii) the rate that would be applicable if the goods were entered under the Most-Favoured-Nation Tariff reduced by one-third."*

3. That paragraph 3.1(3)(a) of the said Act be amended by inserting immediately after the reference to "14305-1", a reference to "14310-1",

4. That subsection 3.1(7) of the said Act be amended by striking out the reference to "paragraph (2)(b)" and substituting therefor a reference to "*paragraph (2)(a) or subparagraph (2)(b)(ii)*".

5. That subsection 15(1) of the said Act be repealed and the following substituted therefor:

**"15. (1) The Deputy Minister may order**

**(a) that the specific rate of duty, or *ad valorem* minimum rate of duty, as the case may be, provided for in tariff items 8701-1, 8703-1, 8705-1,**

8707-1, 8709-1 to 8717-1 inclusive, 8724-1, 8727-1 to 8730-1 inclusive, 8732-1, 8734-1, 8737-1, 8738-1, 8742-1, 9202-1, 9205-1, 9206-1, 9210-1, 9212-1, 9214-1, 9216-1, 9217-1, 9219-1 and 9220-1 shall apply in lieu of the free rate of duty, and

(b) that with respect to any goods enumerated in tariff items 8721-1, 8723-1, 8740-1, 8747-1 and 9222-1, the *ad valorem* rate of duty shall be suspended and a free rate of duty shall apply,

to goods described in the order imported through a Customs office in a region or part of Canada during such period or periods as may be fixed by the *Deputy Minister*."

6. That paragraph 21(1)(d) of the said Act be amended by inserting immediately after the reference to "14305-1", a reference to "14310-1",

7. That section 23 of the said Act be repealed and the following substituted therefor:

"23. (1) *Subject to subsection (2), the rate of duty applicable under this or any other Act of Parliament, or under any regulation or order in council made thereunder, to goods that are used goods or less than prime quality goods is the ad valorem rate of duty otherwise applicable to those goods increased by twenty-five per cent.*

(2) *Subsection (1) is not applicable*

(a) *in respect of any used goods or less than prime quality goods or goods of any class or category thereof prescribed by regulations made on the recommendation of the Minister of Finance; or*

(b) *in the case of any used goods or less than prime quality goods or goods of any class or category thereof that are not referred to in paragraph (a), unless the goods*

(i) *have been identified in a written statement submitted to a Dominion customs appraiser by a manufacturer of similar goods produced in Canada, were entered within the ninety days immediately preceding the date of receipt of the statement by a Dominion customs appraiser and have been determined by a Dominion customs appraiser, within thirty days after the date of receipt of the statement, to be used goods or less than prime quality goods or goods of any class or category thereof not referred to in paragraph (a), or*

(ii) *are identical goods in relation to other goods in respect of which a determination referred to in subparagraph (i) has been made and are entered on or after the date of entry of those other goods but neither prior to the ninety days immediately preceding the date of receipt of the statement submitted in respect of those other goods nor later than two years immediately following the date of entry of those other goods.*

(3) The Governor in Council, on the recommendation of the Minister of Finance, may make regulations

(a) defining, for the purposes of this section, the expressions “used goods”, “less than prime quality goods”, “*identical goods*” and “*similar goods*”;

(b) excluding, *unconditionally or subject to such conditions as may be prescribed*, any used goods or less than prime quality goods or goods of any class or category thereof, in whole or in part, from the application of this section;

(c) *prescribing anything that is, by this section, to be prescribed by regulations; and*

(d) *generally for carrying out the provisions of this section.*

(4) *The Governor in Council, on the recommendation of the Minister of National Revenue, may make regulations prescribing the information required to be contained in a written statement referred to in subparagraph 2(b)(i).*

(5) *Where a determination of a Dominion customs appraiser referred to in subparagraph (2)(b)(i) is made in respect of any goods, re-determinations may be made and appeals taken*

*(a) in respect of that determination or the application of this section to identical goods entered prior to that determination, as if that determination or application were a re-determination of the Dominion customs appraiser made pursuant to paragraph 46(2)(b) of the Customs Act, or*

*(b) in respect of the application of this section to identical goods entered after that determination, as if that application were a determination of the tariff classification referred to in subsection 46(1) of the Customs Act or a re-determination of the Dominion customs appraiser made pursuant to paragraph 46(2)(b) of the Customs Act, as the case may be,*

*and, for the purposes of such re-determinations and appeals, sections 46 to 48 of the Customs Act apply, with such modifications as the circumstances require.”*

8. That Schedule A to the said Act be amended by striking out tariff items 7200-1, 27101-1, 27102-1, 28415-1, 28500-1, 32627-1, 36505-1, 36510-1, 38002-1, 38003-1, 40904-1, 41001-1, 41002-1, 41012-1, 41013-1, 41014-1, 41021-1, 41022-1, 41023-1, 41026-1, 41027-1, 41031-1, 41032-1, 41040-1, 41417-2, 41700-1, 42761-1, 42762-1, 43150-1, 43425-1, 43505-1, 43510-1, 43803-1, 44025-1, 44100-1, 44125-1, 44524-2, 44532-1, 46115-1, 46245-1, 48200-1, 49104-1, 49105-1, 49210-1, 49211-1, 49215-1, 49216-1, 49220-1, 50075-1, 53010-1, 53220-1, 56940-1, 60750-1, 60751-1, 60752-1, 70310-1, 70905-1, 70910-1 and 93205-3, 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 items, enumerations of goods and rates of duty specified in Schedule I to this motion.

9. That Schedule A to the said Act be further amended by striking out tariff item 53215-1 and the enumeration of goods and the rates of duty set opposite that item and by inserting in Schedule A to the said Act the item, enumeration of goods and rates of duty specified in Schedule II to this motion.

10. That the French version of Schedule A to the said Act be amended by striking out in tariff item 40924-1 the reference to "Batteries d'arrosage;" and substituting therefor a reference to "*Combinés d'arrosage;*".

11. That the French version of Schedule A to the said Act be further amended by striking out in tariff item 41100-1 the reference to "Machines devant servir dans les scieries jusqu'au travail des planeuses exclusivement, et leurs pièces, à l'exclusion du matériel de commande des machines de la scierie, lorsqu'elles doivent servir exclusivement dans les scieries;" and substituting therefor a reference to "*Machines pour scier le bois et leurs pièces, jusqu'au rabotage exclusivement, sauf le matériel pour faire fonctionner la machinerie de la scierie, devant servir exclusivement dans les scieries;*".

12. That Schedule B to the said Act be amended by striking out items 97053-1 and 97071-1 and the enumerations of goods, their purposes and the rates of drawback of duty set opposite each of those items.

13. That any enactment founded on paragraphs 1 to 8 and 10 to 12 inclusive of this motion shall be deemed to have come into force on the 24th day of May, 1985, and to have been applied to all goods mentioned in the said paragraphs 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.

14. That any enactment founded on paragraph 9 of this motion shall be deemed to have come into force on the 1st day of January, 1986, and to have applied to all goods mentioned in the said paragraph imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

15. That any regulation made under any enactment founded on paragraph 7 of this motion shall, if the regulation so provides be deemed to have come into force on the 24th day of May, 1985, or on any date thereafter as specified in the regulation.



## SCHEDULE I

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion				
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	
7200-1	Field and garden seeds not specified as free, valued at not less than five dollars <i>and fifty cents per 500 grams</i> , n.o.p., in packages weighing not less than <i>25 grams each</i> .....	Free	Free	10 p.c.	—	Free	Free	10 p.c.	—
14310-1	<i>Hand-rolled cigars, the weight of the bands and ribbons to be included in the weight for duty</i> ..... <i>per pound and</i>	\$1.45 10 p. c.	\$1.45 10 p.c.	\$3.00 20 p.c.	Free	\$1.45 10 p.c.	\$1.45 10 p.c.	\$3.00 20 p.c.	96.67 cts. 6.5 p.c.
	Lubricating oils, composed wholly or in part of petroleum; <i>oils, composed wholly or in chief part of petroleum, with a viscosity of 7.44mm<sup>2</sup>/second or higher at 37.8°C:</i>								
27101-1	Valued at less than 25 cents per gallon..... per gallon on and after January 1, 1986 per gallon on and after January 1, 1987 per gallon	1.50 cts. 1.50 cts. 1.40 cts.	1.61 cts. 1.51 cts. 1.40 cts.	2.5 cts. 2.5 cts. 2.5 cts.	1.07 cts. 1.00 ct. .93 ct.	1.50 cts. 1.50 cts. 1.40 cts.	1.61 cts. 1.51 cts. 1.40 cts.	2.5 cts. 2.5 cts. 2.5 cts.	1.07 cts. 1.00 ct. .93 ct.
27102-1	N.o.p. .... on and after January 1, 1986 on and after January 1, 1987	9.1 p.c. 8.6 p.c. 8 p.c.	9.1 p.c. 8.6 p.c. 8 p.c.	20 p.c. 20 p.c. 20 p.c.	6 p.c. 5.5 p.c. 5 p.c.	9.1 p.c. 9.1 p.c. 9.1 p.c.	9.1 p.c. 9.1 p.c. 9.1 p.c.	20 p.c. 20 p.c. 20 p.c.	6 p.c. 6 p.c. 6 p.c.



Tariff Item	Rates in Effect Prior to Rates Proposed in this Motion								
	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	
	<i>of jewellery or ornaments for the adornment of the person</i>	Free	9.1 p.c.	25 p.c.	Free	Free	9.1 p.c.	25 p.c.	Free
	on and after January 1, 1986	Free	8.6 p.c.	25 p.c.	Free				
	on and after January 1, 1987	Free	8 p.c.	25 p.c.	Free				
40904-1	Cultivators, harrows, seed-drills, horse-rakes, horse-hoes, scufflers, manure spreaders <i>other than hand-pushed type spreaders commonly used for lawns</i> , garden seeders, weeders, and complete parts of all the foregoing	Free	Free	Free	Free	Free	Free	Free	Free
	Bits and augers of all kinds;								
	Drills of all kinds, not including those drilling rigs entitled to entry under tariff item 49103-1;								
	Fishing tools, n.o.p.;								
	Reamers, stabilizers, and combinations thereof, n.o.p.;								
	<i>Parts of the foregoing;</i>								
	All the foregoing for use in the exploration or drilling for water, oil, natural gas or minerals, or in mining or quarrying:								
41001-1	<i>Other than the following</i>	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.
	on and after January 1, 1986	5 p.c.	9.9 p.c.	25 p.c.	5 p.c.				
	on and after January 1, 1987	5 p.c.	9.2 p.c.	25 p.c.	5 p.c.				
41002-1	<i>Core drill bits, non-diamond type;</i>								
	<i>Rotary rock drill bits;</i>								
	<i>Augers other than those used in the exploration or drilling for water;</i>								



Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion				
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	
Coal cutting machines; Dust collectors; Elevating platforms, including raise climbers, for use underground; Loading machines, including draglines and power shovels; Scales for use with conveyors; <i>Parts of all the foregoing:</i>									
41013-1	<i>Other than the following</i> .....	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.
	on and after January 1, 1986	5 p.c.	9.9 p.c.	25 p.c.	5 p.c.				
	on and after January 1, 1987	5 p.c.	9.2 p.c.	25 p.c.	5 p.c.				
41014-1	<i>Coal cutting machines; Loading machines, including draglines and power shovels, other than: hydraulic excavating backhoes, weighing 321,000 pounds or less, or with bucket capacity of 16 cubic yards or less; hydraulic excavat- ing power shovels, weighing 310,000 pounds or less, or with a bucket capacity of 13.1 cubic yards or less; wheel type integral excavating front-end loaders, with a bucket capacity for general-pur- pose use of 16 cubic yards or less; Parts, other than wire rope, of all the forego- ing</i> .....	Free	Free	Free	Free	Free	Free	Free	Free



Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion				
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	
Flotation machines, flotation cells, and oil feeders and reagent feeders therefor; Furnace slag trucks and slag pots; Pyrometers; Retorts; Screens, including oscillating, revolving, shaking, stationary, travelling and vibrating screens, and grizzlies; Separators, including jigs and magnetic or electric separators and magnetic pulleys; Thickeners; Chemical conversion, extraction, reduction or recovery apparatus for use in metallurgical operations; Machinery and apparatus for use in the refining of metals or in roasting or smelting or the production of anodes, cathodes, blocks, slabs, pigs or ingots in such processes; Machinery and apparatus for use in washing, screening, drying or dry cleaning coal; <i>Parts of all the foregoing:</i>									
41022-1	<i>Other than the following</i> .....	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.
	on and after January 1, 1986	5 p.c.	9.9 p.c.	25 p.c.	5 p.c.				
	on and after January 1, 1987	5 p.c.	9.2 p.c.	25 p.c.	5 p.c.				
41023-1	<i>Air separator equipment, not including compressors, heat exchangers, steel vessels or tanks; Amalgam cleaners;</i>								

Tariff Item	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff
<i>Equipment, except pyrometers, for testing/inspecting physical properties;</i> <i>Laboratory centrifuges;</i> <i>Machinery and apparatus for use in washing, screening, drying or dry cleaning coal;</i> <i>Retorts;</i> <i>Rotary open-hearth furnaces;</i> <i>Parts of all the foregoing.....</i>	Free	Free	Free	Free	Free	Free	Free	Free
41026-1 Machinery and apparatus for use in producing coal gas and coke; machinery and apparatus for use in the distillation or recovery of products from coal tar or coal gas; <i>parts of all the foregoing.....</i>	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.
on and after January 1, 1986	5 p.c.	9.9 p.c.	25 p.c.	5 p.c.				
on and after January 1, 1987	5 p.c.	9.2 p.c.	25 p.c.	5 p.c.				
41031-1 Machinery and apparatus for the recovery of solid or liquid particles from flue or other waste gases at metallurgical or industrial plants, <i>namely:</i>  <i>Dust collection machinery and equipment;</i> <i>Dust precipitators, catalytic and electrostatic types;</i> <i>Filter elements;</i> <i>Filtering machinery;</i> <i>Centrifugal separators;</i> <i>Parts of all the foregoing.....</i>	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.	5 p.c.	10.7 p.c.	25 p.c.	5 p.c.
on and after January 1, 1986	5 p.c.	9.9 p.c.	25 p.c.	5 p.c.				
on and after January 1, 1987	5 p.c.	9.2 p.c.	25 p.c.	5 p.c.				



Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
41040-1								
Safety goggles, safety spectacles and safety face shields designed for eye protection of workers employed in hazardous work; parts thereof, including lenses, frames and face shield adaptors for safety helmets; plastic or glass shapes for lenses thereof.....	Free	Free	Free	Free	Free 14.6 p.c.	Free 14.6 p.c.	Free 30 p.c.	Free 9.5 p.c.
41047-1								
Semi-diesel engines; Diesel dual fuel engines; Diesel engines having a continuous rated brake horsepower of less than 500 or more than 5,000; Engines, gas, with a brake horsepower not in excess of 75; Turbines, gas, rated at less than 1,000 hp or more than 60,000 hp; Air engines; Hydraulic general-purpose motors; Compressed gas general-purpose engines without combustion; Electric DC motors, rated at not more than 1 hp; Hydraulic couplings for power transmission; Hydraulic pumps; Portable air compressors over 1,600 cfm; Centrifugal, multi-stage, single suction pumps, with head over 800 psi; Braised aluminum heat exchangers for cryogenic service; Parts of all the foregoing;								

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
<i>All the foregoing when otherwise classifiable under tariff items 41013-1, 41022-1, 41026-1, 41031-1, 49104-1 or 49215-1, or when for use in the distillation or recovery of products from natural gas .....</i>	Free	Free	25 p.c.	Free	Free	Free	25 p.c.	Free
41417-2 Electronic data processing machines and apparatus; peripheral equipment for use therewith including data entry, data preparation and data handling machines and apparatus; accessories and attachments for use therewith; parts of all the foregoing; none of the foregoing to include telephone and telegraph apparatus and parts thereof:								
41417-2 Drum storage memories; disc packs; disc drives; disc files; disc cartridge cleaners; card readers; card punches; card readers/punches; paper tape readers and punches; badge readers and punches; document transport mechanisms; tape to card punches; reproducing punches; <i>printers other than those incorporating keyboards</i> ; card or paper tape verifiers; collators; card sorters; process control apparatus which converts analog signals from or to digital signals, the foregoing not to include sensors; card conditioning equipment; parts of the foregoing .....	Free	Free	35 p.c.	Free	Free	Free 3.9 p.c.	35 p.c. 25 p.c.	Free

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion				
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	
	Machines and tools, including blades, loaders, rippers, rakes and related operating and controlling gear; <i>parts of the foregoing</i> ; all the foregoing for use on internal combustion tractors entitled to entry under tariff item 40938-1:								
42761-1	<i>Other than the following</i> .....	2.5 p.c.	10.7 p.c.	35 p.c.	2.5 p.c.	2.5 p.c.	10.7 p.c.	35 p.c.	2.5 p.c.
	on and after January 1, 1986	2.5 p.c.	9.9 p.c.	35 p.c.	2.5 p.c.				
	on and after January 1, 1987	2.5 p.c.	9.2 p.c.	35 p.c.	2.5 p.c.				
42762-1	<i>Hydraulic pumps, hydraulic valves, hydraulic controls, shafts other than camshafts or driveshafts, all for power transmission; Hydraulically-operated winches with capacities in excess of 60,000 pounds; Well or logging type winches with capacities in excess of 60,000 pounds; Automotive type winches; Road sweepers; Attachments for garden tractors, other than lawn mower decks, pull-behind lawn mowers and lawn rollers; Lawn sweepers; Rotary brooms, 58 inches or less in diameter; Parts of all the foregoing</i> .....	Free	Free	35 p.c.	Free	Free	Free	35 p.c.	Free
43150-1	Geophysical precision instruments and equipment <i>other than magnetometers, gravimeters, electromagnetic devices, induced polarization devices, germanium detectors, gamma gauges,</i>								



Tariff Item	Rates in Effect Prior to Rates Proposed in this Motion							
	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
44063-1 <i>Goods, other than seat covers of textile fabric and goods entitled to entry under tariff items 42700-1, 42701-1, 44049-1, 44053-1, 44057-1, 44059-1, 44060-1 and 44062-1, for the manufacture or repair of aircraft, aircraft engines and parts thereof</i> .....	Free	Free	30 p.c.	Free	Free Various	Free Various	Free Various	Free Various
44100-1 <i>Guns, rifles, including air guns and air rifles not being toys; cannons or other firearms, n.o.p.; cartridge cases, cartridges, primers, percussion caps, wads or other ammunition, n.o.p.; bayonets, swords, fencing foils and masks; gun or pistol covers or cases, game bags, loading tools and cartridge belts of any material</i> .....	10 p.c.	13.5 p.c.	30 p.c.	Free	10 p.c.	13.5 p.c.	30 p.c.	Free
<i>on and after January 1, 1986</i>	10 p.c.	12.4 p.c.	30 p.c.	Free				
<i>on and after January 1, 1987</i>	10 p.c.	11.3 p.c.	30 p.c.	Free				
44125-1 <i>Pistols, shot-guns, n.o.p., and rifles, including .22 calibre target rifles but not including all other .22 calibre rimfire rifles; parts of the foregoing</i>	Free	6 p.c.	30 p.c.	Free	Free	6 p.c.	30 p.c.	Free
<i>on and after January 1, 1986</i>	Free	5.8 p.c.	30 p.c.	Free				
<i>on and after January 1, 1987</i>	Free	5.5 p.c.	30 p.c.	Free				
Electrical instruments and apparatus of precision, viz: — Meters or gauges for indicating and/or recording altitude, amperes, comparisons, capacity, density, depth, distance, electrolysis, flux, force, frequency, humidity, inductance, liquid levels, ohms, operation, power factor,								



Tariff Item	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion								
				British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff						
<i>Interferometric spectrophotometers (Fourier transform type);</i> <i>Meters for recording or measuring electricity supply, water current or water supply;</i> <i>Multimeters of the portable or panel indicating type;</i> <i>Null meters;</i> <i>Portable tachometer testers designed to test automobile tachometers;</i> <i>Portable relay test sets of a kind designed to test protective relays, circuit breakers and starters in high tension power distribution systems;</i> <i>Portable instruments for testing motor vehicle engines;</i> <i>Pyrometers;</i> <i>Resistance bridges;</i> <i>rH and pH meters;</i> <i>Salinometers;</i> <i>Sonar and echo sounding equipment;</i> <i>Temperature bridges;</i> <i>Temperature measuring devices employing resistance thermal detector sensing elements;</i> <i>Thickness sensors;</i> <i>Titrimeters;</i> <i>Transducers;</i> <i>Transmissometers;</i> <i>Vibration, noise and spike energy measuring instruments, analysers and monitors;</i>												





Tariff Item	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			General Prefer- ential Tariff
					British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	
systems; tape recorders including video tape recorders; Parts of the foregoing; All the foregoing for use in the commercial production of motion pictures, animated films or multi-image slide or movie shows, with or without sound .....	Free	Free	30 p.c.	Free	Free	Free	30 p.c.	Free
48200-1 Hearing aids and similar appliances and batteries for use therewith; battery chargers and battery testers for use with the foregoing; all the foregoing for use by deaf persons; electronic ear-training apparatus, including microphones, headsets, record-turning devices and tone arms, designed for use by or for the training of the deaf; communications devices for use with electric telegraph and telephone apparatus when <i>for use in communicating by or with</i> deaf persons; closed captioning devices for attachment to television receiving sets; parts of the foregoing; under such regulations as the Minister may prescribe .....	Free	Free	Free	Free	Free	Free	Free	Free
Machinery and apparatus for use in exploratory or discovery work in connection with oil or natural gas wells or for the development, maintenance, testing, depletion or production of such wells up to and including the wellhead								



Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
<i>Scientific equipment for oceanographic exploration and discovery work; Seismic instruments; Surveying instruments; Parts of all the foregoing, other than wing unions for oil well pressure maintenance or pressure improvement.....</i>	Free	Free	Free	Free	Free	Free	Free	Free
Machinery and apparatus for use in recovering and producing crude oil from shales, oil-sands or tar-sands; parts of the foregoing:								
49215-1 <i>Other than the following.....</i>	5 p.c.	7.6 p.c.	20 p.c.	5 p.c.	5 p.c.	7.6 p.c.	20 p.c.	5 p.c.
<i>on and after January 1, 1986</i>	5 p.c.	7.2 p.c.	20 p.c.	4.5 p.c.				
<i>on and after January 1, 1987</i>	5 p.c.	6.8 p.c.	20 p.c.	4.5 p.c.				
49216-1 <i>Flexible metal tubing, non-electric; Wheel type integral excavating front-end loaders with bucket capacity for general-purpose use in excess of 16 cubic yards, and parts thereof.....</i>	Free	Free	Free	Free	Free	Free	Free	Free
49220-1 <i>Materials for use in the manufacture of the goods specified in tariff items 49101-1, 49102-1, 49103-1, 49104-1, 49105-1, 49106-1, 49110-1, 49201-1, 49202-1, 49205-1, 49215-1, 49216-1 and 49217-1.....</i>	Free	Free	Free	Free	Free	Free	Free	Free

Tariff Item		Rates in Effect Prior to Rates Proposed in this Motion							
		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
50075-1	Timber, lumber and mouldings of wood, n.o.p.....	7.6 p.c.	7.6 p.c.	25 p.c.	Free	7.6 p.c.	7.6 p.c.	25 p.c.	5 p.c.
	on and after January 1, 1986	7.2 p.c.	7.2 p.c.	25 p.c.	Free				
	on and after January 1, 1987	6.8 p.c.	6.8 p.c.	25 p.c.	Free				
50603-2	Field hockey sticks.....	4.3 p.c.	4.3 p.c.	25 p.c.	Free	4.3 p.c.	4.3 p.c.	25 p.c.	2.5 p.c.
	on and after January 1, 1986	4.1 p.c.	4.1 p.c.	25 p.c.	Free				
	on and after January 1, 1987	4 p.c.	4 p.c.	25 p.c.	Free				
51170-1	Football equipment, namely: helmets, face masks and shoulder pads.....	Free	Free	30 p.c.	Free	14.6 p.c.	14.6 p.c.	30 p.c.	9.5 p.c.
53010-1	Slivers, wholly or in part of wool, not containing man-made fibres or glass fibres.....per kilogram	Free	Free	33 cts.	—	Free	3.7 cts.	33 cts.	—
53220-1	Woven fabrics, composed wholly or in chief part by weight of yarns of wool or hair, not exceeding in weight 135 g/m <sup>2</sup> , when imported in the gray or unfinished condition, for the purpose of being dyed or finished in Canada..... and, per kilogram	Free	12.5 p.c.	30 p.c. 44 cts.	Free	Free	16.7 p.c.	30 p.c. 44 cts.	Free
56940-1	Firemen's helmets; safety helmets for industrial purposes; welders' helmets and welders' face shields; parts of the foregoing.....	Free	Free	Free	Free	Free 14.6 p.c.	Free 14.6 p.c.	Free 30 p.c.	Free 9.5 p.c.
	Leather for use exclusively in manufacturing gloves or leather clothing:								
60750-1	Other than the following.....	Free	6 p.c.	10 p.c.	Free	Free	6 p.c.	10 p.c.	Free
	on and after January 1, 1986	Free	5.8 p.c.	10 p.c.	Free				
	on and after January 1, 1987	Free	5.5 p.c.	10 p.c.	Free				

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			General Preferential Tariff
						British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	
60751-1	Sueded cattle hide leather.....	Free	7.5 p.c.	10 p.c.	Free	Free	7.5 p.c.	10 p.c.	Free
60752-1	Leather, consisting of beef-cattle hides, horse-hides or sheepskins, but not including suedes, cabrettas, Spanish capes or African capes.....	Free	8.1 p.c.	20 p.c.	Free	Free	8.1 p.c.	20 p.c.	Free
	on and after January 1, 1986	Free	7.8 p.c.	20 p.c.	Free				
	on and after January 1, 1987	Free	7.5 p.c.	20 p.c.	Free				
	Goods (not including alcoholic beverages, cigars, cigarettes and manufactured tobacco except where specifically provided therefor) acquired abroad by a resident or temporary resident of Canada or by a former resident who is returning to Canada to resume residence for his personal or household use or as souvenirs or gifts, but not bought on commission or as an accommodation for any other person or for sale, and declared by him at the time of his return to Canada, under such regulations as the Minister may prescribe:								
70310-1	Valued at not more than one hundred dollars (including alcoholic beverages not exceeding forty ounces, and tobacco not exceeding fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco) and included in the baggage accompanying the person returning from abroad after an								

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
absence from Canada of not less than forty-eight hours.....	Free	Free	Free	Free	Free Various	Free Various	Free Various	Free Various

Notwithstanding the provisions of this Act or any other Act, the value for duty as otherwise determined under the *Customs Act* in the case of any goods described under tariff items 70310-1, 70311-1 and 70312-1 which, but for the fact that the value thereof exceeds the maximum value specified in such items, would have been entitled to entry under one of those items, shall be reduced by an amount equal to the value specified in those items.

Goods entitled to entry under any item of this heading shall be exempt from all other imposts notwithstanding the provisions of this Act or any other Act.

The Minister by regulation may, notwithstanding any other provision in customs legislation relating to the entry of goods, excuse a person from any requirement for making a written declaration or entry with respect to goods entitled to entry under any item of this heading.

The Governor in Council may, by order, on the recommendation of the Minister of Finance, reduce the maximum value of goods that are entitled to entry under any item of this heading

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion		
				British Preferential Tariff	Most-Favoured-Nation Tariff	General Preferential Tariff

but every order made pursuant to this authority shall be published in the *Canada Gazette*, and shall cease to have any force or effect with respect to any period following the 180th day from the date of its making or, if Parliament is not then sitting, the 15th day next thereafter that Parliament is sitting, unless not later than that day the order is approved by resolution adopted by both Houses of Parliament.

70905-1 Goods, including containers or coverings filled or empty, the growth, produce or manufacture of Canada, after having been exported therefrom, if the goods are returned without having been advanced in value or improved in condition by any process of manufacture or other means, or combined with any other article abroad .....

Free	Free	Free	Free	Free Various	Free Various	Free Various	Free Various
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All the foregoing under such regulations as the Minister may prescribe.

Any such goods on which a refund of duty or allowance of drawback has been made shall not be admitted to entry under this item except upon payment of duties equal to the refund or drawback allowed;

Any of such goods manufactured in bond or under excise regulations in Canada and

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff

exported shall not be admitted to entry except upon payment of the Customs or Excise duties to which they would have been liable had they not been exported from Canada;

Where the Minister is satisfied that a quantity of containers in a usable condition has previously been exported from Canada he may by regulation permit the importation free of customs duty of a like quantity of similar containers which are not the growth, produce or manufacture of Canada.

70910-1 Goods, including containers or coverings filled or empty, which have once been entered for consumption in Canada and have been exported therefrom; if the goods are returned without having been advanced in value or improved in condition by any process of manufacture or other means, or combined with any other article abroad

Free Free Free Free Free Various Free Various Free Various Free Various

All the foregoing under such regulations as the Minister may prescribe.

Any such goods on which a refund of duty or allowance of drawback has been made shall not be admitted to entry under this item except upon payment of duties equal to the refund or drawback allowed;



Tariff Item	British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
					British Prefer- ential Tariff	Most- Favoured- Nation Tariff	General Tariff	General Prefer- ential Tariff

Any of such goods manufactured in bond or under excise regulations in Canada and exported shall not be admitted to entry except upon payment of the Customs or Excise duties to which they would have been liable had they not been exported from Canada;

Where the Minister is satisfied that a quantity of containers in a usable condition has previously been exported from Canada he may by regulation permit the importation free of customs duty of a like quantity of similar containers which are not the growth, produce or manufacture of Canada.

93205 — Synthetic organic dyestuffs (including pigment dyestuffs); synthetic organic products of a kind used as luminophores; products of the kind known as optical bleaching agents, substantive to the fibre; natural indigo:

93205-3	Pigment dyestuffs, n.o.p. ....	10 p.c.	13.1 p.c.	25 p.c.	8.5 p.c.	10 p.c.	13.1 p.c.	25 p.c.	8.5 p.c.
	on and after January 1, 1986	10 p.c.	12.8 p.c.	25 p.c.	8.5 p.c.				
	on and after January 1, 1987	10 p.c.	12.5 p.c.	25 p.c.	8 p.c.				

*Except that in the case of Red Lake C pigment dyestuff, the British Preferential Tariff and the rates of duty set out in subsections 3(2.2) to (2.6) of this Act do not apply.*

## SCHEDULE II

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
				British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
53215-1 Woven fabrics composed wholly or in chief part by weight of yarns of wool or hair and weighing not more than 305g/m <sup>2</sup> , n.o.p. ....	18 p.c.	25 p.c.	40 p.c.	18 p.c.	25 p.c.	40 p.c.	—
and, per kilogram	13.2 cts.	18.3 cts.	88 cts.	—	13.2 cts.	18.3 cts.	88 cts.
on and after January 1, 1986	18 p.c.	25 p.c.	40 p.c.	—	—	—	—
and, per kilogram	6.6 cts.	9.3 cts.	88 cts.	—	—	—	—
on and after January 1, 1987	18 p.c.	25 p.c.	40 p.c.	—	—	—	—
and, per kilogram	—	—	88 cts.	—	—	—	—
The total duty leviable shall not be in excess of.....per kilogram	\$1.32	\$2.43	—	—	\$1.32	\$2.43	—

*Total duty leviable under the Most-Favoured-Nation Tariff shall be set by the Deputy Minister, effective July 1 of each year, to equate to an ad valorem rate of 11.8 p.c., based on Statistics Canada import statistics for this item for the most recent three calendar years.*

*Total duty leviable under the British Preferential Tariff shall be set by the Deputy Minister, effective July 1 of each year, to equate to 54.5 per cent of the total duty leviable under the Most-Favoured-Nation Tariff.*

*The Deputy Minister shall, on or before June 1 of each year, cause to be published in the Canada Gazette the total duty leviable under each Tariff which will be effective from July 1 to June 30.*

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**Notice of Ways and Means Motion  
Respecting the Consolidation of  
Duty Relief, Reduction and Deferral Programs**

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# **Notice of Ways and Means Motion Respecting the Consolidation of Duty Relief, Reduction and Deferral Programs**

That it is expedient to introduce a measure to provide among other things:

1. For the establishment of a comprehensive consolidation of existing duty relief, reduction and deferral programs, presently set out in statutes, regulations, Orders in Council and ministerial orders, that are designed to assist Canadian manufacturers in increasing their competitiveness in foreign and domestic markets.
2. That any enactment founded on this motion come into force on a day to be fixed by proclamation.