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1979

Budget Papers

Notices of Ways and Means Motions
and supplementary information
on the Budget

December 11, 1979



Department of Finance
Canada

Ministère des Finances
Canada



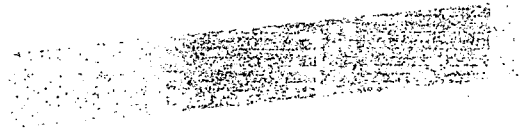
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**Notice of Ways
and Means Motion**

Income Tax Act

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:

Volunteer Firemen

(1) That for the 1980 and subsequent taxation years, the non-taxable allowance for volunteer firemen be increased from \$300 to \$500.

Employee Aircraft

(2) That for the 1980 and subsequent taxation years, an employee entitled to deduct travelling expenses be permitted a deduction for depreciation and interest expense relating to an aircraft required for use in his employment.

Overseas Employment Exemption

(3) That for the 1980 and subsequent taxation years, an individual employed by a taxable Canadian employer in a prescribed country for a period exceeding six consecutive months in connection with a contract entered into by his employer in the course of carrying on business relating to

(a) a construction, installation, agricultural or engineering project,

(b) the exploration for or extraction of petroleum, natural gas or mineral resources, or

(c) a prescribed activity

be permitted a deduction from the remuneration paid to him in that period by his employer of an amount not exceeding the lesser of \$50,000 on an annual basis and one-half of the remuneration attributable to that employment.

Reinsurance Commissions

(4) That for the 1980 and subsequent taxation years, where an insurance corporation assumes an insurance risk (other than a life insurance risk) in a year under a reinsurance transaction,

(a) it be required to include the amount prescribed to be the reinsurance commission reserve in respect of the transaction in income for the year, and

(b) it be permitted to deduct that amount in computing its income for the following year.

Unpaid Non-Life Insurance Policy Claims

(5) That for the 1978 taxation year, an insurance corporation be required to include in income the amount by which the aggregate of amounts deducted in years ending before 1978 in respect of claims under its insurance policies that were not life insurance policies exceeds the aggregate of amounts paid in respect of such claims in those years.

**Lease
Options**

(6) That where, after December 11, 1979, a capital property is acquired by a taxpayer upon the exercise of an option under a lease or in any other case where the consideration therefor is less than its fair market value at the date of acquisition, for the purposes of the rules in the Act relating to depreciation recapture and capital gains

(a) the taxpayer shall be deemed to have acquired the property at a capital cost that is the lesser of its fair market value and the sum of the purchase price and all rent previously paid on the property,

(b) the amount by which such capital cost exceeds the purchase price shall be deemed to be depreciation previously allowed to the taxpayer in respect of the property, and

(c) where the property acquired is land, it shall be deemed to be depreciable property of a separate prescribed class.

**Voluntary
Disposition
of Eligible
Capital
Property**

(7) That for voluntary dispositions of eligible capital property after December 11, 1979, the rollover rules be modified to ensure that a deferral of tax is available only to the extent that the proceeds are reinvested in eligible capital property.

**Shareholder
Loans**

(8) That for the 1979 and subsequent taxation years, the exclusion in respect of housing loans under subsection 15(2) of the Act be extended to housing loans to the spouse of a shareholder-employee.

**Small
Business
Development
Bonds**

(9) That for the 1980 and subsequent taxation years, any payment of interest by a qualifying corporation on a small business development bond be treated as a taxable dividend except for the purposes of sections 129 and 186 of the Act and for this purpose "small business development bond" means a debt obligation not exceeding \$500,000 issued after December 11, 1979 and before 1981 for a term of at least one year and not exceeding 5 years but does not include any such obligation

(a) if, at the time it was issued, the corporation or any corporation associated or in partnership with it had a small business development bond outstanding,

(b) unless the corporation and the lender elect to qualify the obligation as a small business development bond, and

(c) for the period after any bond anniversary date on which the corporation was not a qualifying corporation

and "qualifying corporation" means one substantially all of the assets of which are used in an active business carried on in Canada and that in the year qualified, or would have qualified if it had sufficient income, for the small business deduction under subsection 125(1) of the Act.

**Unregistered
Employee
Benefit Plans**

(10) That

(a) a deduction be allowed in respect of reasonable employer payments made after December 11, 1979 to or under an unregistered employee benefit plan only at the time the amount vests irrevocably in the employee, and

(b) any benefit vesting irrevocably in or received by a taxpayer at any time after December 11, 1979 pursuant to any such plan be included in computing his income at that time

and for this purpose "unregistered employee benefit plan" does not include any plan referred to in paragraph 6(1)(a) or (f) of the Act, an employee profit sharing plan or certain other plans providing for employee benefits.

Prepaid Expenses

(11) That in computing a taxpayer's income for a taxation year from a business or property, rules be provided to ensure that, except where section 28 of the Act applies, the portion of any otherwise deductible outlay made or expense incurred by the taxpayer after December 11, 1979 in respect of

(a) services to be rendered in a subsequent year,

(b) insurance, taxes, interest, rent and other similar amounts relating to a period in a subsequent year, or

(c) parts, supplies, stationery or similar inventories of the taxpayer at the end of the year,

be deductible in the subsequent taxation year to which it reasonably relates rather than in the taxation year in which the outlay was made or the expense was incurred.

Bankers' Acceptances

(12) That for certification fees payable after December 11, 1979, the maximum term of a bankers' acceptance in respect of which the fee is deductible be increased to 366 days from 90 days.

Inventory Allowance

(13) That for dispositions after December 11, 1979, the 3% inventory allowance be reduced in specified circumstances where inventory of a taxpayer is disposed of on a winding-up or a discontinuance of a business, where all or a substantial part of the taxpayer's inventory is disposed of or where inventory is disposed of in a non-arm's length transaction and one of the purposes of the transaction is to increase the allowance.

Capitalized Interest

(14) That for taxation years ending after December 11, 1979, the requirements relating to the election to capitalize interest be simplified.

Cash Method — Fishermen

(15) That for the 1972 and subsequent taxation years, the right to use the cash basis for reporting income from a fishing business be confirmed.

Bequests of Cultural Property

(16) That where, as a consequence of the death of a taxpayer after September 5, 1977, an object certified under the *Cultural Property Export and Import Act* is donated to a designated institution or public authority, any capital gain from the disposition of the object be exempt.

Business Investment Loss

(17) That the definition of business investment loss be amended to ensure that a taxpayer's loss on a disposition after December 11, 1979 of any share is reduced by the amount of any taxable dividend received by him after 1971 on or after the disposition of the share.

- Replacement Properties** (18) That for the purposes of the replacement property rules,
- (a) for any disposition after March 31, 1977 of a former business property, any resultant capital gain be reduced, if the taxpayer elects, to the extent that the proceeds are reinvested within the appropriate time in a replacement property that is either land or a building, and
 - (b) for any disposition after December 11, 1979, any reserve in respect of proceeds not due be based on the capital gain as reduced under subsection 44(1) of the Act.
- Indirect Gifts** (19) That with respect to transactions after December 11, 1979 under sections 51, 86 or 87 of the Act, rules be provided to deny the rollover that would otherwise be available to a taxpayer to the extent that he can reasonably be regarded as having made a gift to a related person.
- Contribution of Capital** (20) That the adjusted cost base of a share of the capital stock of a corporation owned by a taxpayer not be increased by any contribution of capital made after December 11, 1979 by the taxpayer to the corporation to the extent that such contribution can reasonably be regarded as a gift made to a person related to the taxpayer.
- Capital Gain Strips** (21) That with respect to dispositions of property by a corporation in most arm's length and in certain non-arm's length circumstances after December 11, 1979, section 55 of the Act be amended to ensure
- (a) that, for purposes of the Act, the proceeds on a disposition of property (other than a share of the capital stock of a connected corporation) to which section 85 of the Act applies be increased by the amount of any related taxable dividends that can reasonably be considered to be in substance proceeds of disposition of the property except to the extent that such dividends are subject to tax under Part IV of the Act, and
 - (b) that a capital gain on a disposition of a share of the capital stock of a connected corporation reflect an appropriate portion of taxable dividends related to the share if it can reasonably be considered that any taxable dividends have been paid for the purpose of reducing any capital gain with respect to the share except to the extent that such dividends were subject to tax under Part IV of the Act or can reasonably be considered to relate to post-1971 taxed retained earnings.
- Recaptured Depletion** (22) That for taxation years commencing after December 11, 1979, any year-end credit balance in a taxpayer's earned depletion base, frontier exploration base or supplementary depletion base be required to be included in income.
- Support Payments** (23) That the deduction for maintenance payments be extended to certain payments after December 11, 1979 required by a court order pursuant to prescribed provincial legislation for the maintenance of the recipient or his children and that such payments be included in the income of the recipient.
- Contributions to Registered Retirement Savings Plans** (24) That for the 1979 and subsequent taxation years, the computation of deductible contributions to registered retirement savings plans be simplified by requiring the contributor to designate the portion of his contributions to be deducted under the rollover provisions of the Act.

Registered Retirement Savings Plan Transfers for Farmers

(25) That up to \$100,000 of any taxable capital gain realized by a full-time farmer on an arm's length disposition after December 11, 1979 of Canadian farmland or shares in a qualified farm corporation qualify for a rollover into a registered retirement savings plan once in the farmer's lifetime if the farmland has been used for at least fifteen of the previous twenty years in a qualified farming business carried on by him or by the corporation, and for this purpose,

(a) "full-time farmer" means an individual who devotes substantially all of his working time to farming during the growing season or who, either alone or together with members of his family, supplies substantially all of the effort required to operate the farm, and

(b) "qualified farm corporation" means a corporation all of the shares of which are owned by one or more full-time farmers or members of their families and derive a substantial part of their value from Canadian farmland.

Cost of Objections and Appeals

(26) That costs incurred after December 11, 1979 in objecting to or appealing an assessment of any provincial income tax or any foreign tax deductible under section 126 of the Act or a decision or assessment under the *Canada Pension Plan* or similar provincial pension plan be deductible and that any recovery thereof be included in income.

Joint Exploration Corporation

(27) That for the 1979 and subsequent taxation years, Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses incurred after December 11, 1979 may be renounced by a joint exploration corporation only in favour of a shareholder corporation that is a Canadian corporation.

Earned Depletion of Successor Corporations

(28) That for the 1979 and subsequent taxation years, a successor corporation or a second successor corporation be entitled to a deduction in respect of the earned depletion acquired from a predecessor corporation or successor corporation, as the case may be, before making a deduction in respect of Canadian exploration expenses.

Write-Off of Canadian Oil and Gas Properties

(29) That costs incurred after December 11, 1979 on the acquisition of Canadian oil and gas properties be deductible at a maximum rate of 10% per annum on a reducing balance basis.

Spousal Rollovers

(30) That the transfer after 1979 of capital property by a taxpayer to his spouse or former spouse for deemed proceeds equal to its fair market value rather than its adjusted cost base be permitted if the taxpayer so elects.

Remuneration Paid to a Spouse

(31) That

(a) subsections 74(3) and (4) of the Act not apply to remuneration paid to a spouse after 1979 for services rendered after 1979, and

(b) subsection 74(5) of the Act not apply for fiscal periods of partnerships ending after December 11, 1979.

- Attribution Rules** (32) That
- (a) for the 1979 and subsequent taxation years, the attribution rules cease to apply to any payment made by a taxpayer to his spouse the amount of which is included in computing the income of his spouse, and
 - (b) the attribution rules generally cease to apply where a taxpayer and his spouse separate pursuant to a judicial order or written separation agreement after December 11, 1979 or, in the case of any such order or agreement on or before that date, where the taxpayer and his spouse so elect.
- Transfer of Property to a Corporation** (33) That with respect to dispositions of property made after December 11, 1979, the rules in section 85 of the Act not apply to
- (a) dispositions of property to a corporation that is not a taxable Canadian corporation, and
 - (b) dispositions of Canadian resource properties by non-residents.
- Amalgamation of Life Insurance Corporations** (34) That rules be provided to ensure that, where there has been an amalgamation of two or more life insurance corporations after 1977, for the purposes of section 138 of the Act the new corporation will be treated as a continuation of each predecessor corporation.
- Winding-Up** (35) That the rules in section 88 of the Act relating to the winding-up of a subsidiary corporation be extended to any winding-up commencing after December 11, 1979 of a subsidiary where at least 90% of its shares of each class is owned by its parent.
- Liquidation Dividends Paid to Non-Residents** (36) That on the winding-up of a corporation commencing after December 11, 1979, a distribution to non-residents of pre-1972 capital surplus on hand be subject to the non-resident withholding tax.
- Transfer of Corporate Residence** (37) That where a corporation ceases at any time after December 11, 1979 to be a Canadian corporation,
- (a) its taxation year shall be deemed to end at that time,
 - (b) it shall be deemed immediately after that time to be a non-resident corporation carrying on business in Canada, and
 - (c) it shall be deemed to have disposed of all of its property immediately before that time at fair market value and the amount by which such value exceeds the aggregate of its liabilities and the paid-up capital of its shares shall be added to its branch tax base for the subsequent taxation year.
- Definition of Canadian Corporation** (38) That the definition of "Canadian corporation" be changed effective December 11, 1979 to exclude
- (a) any corporation incorporated in Canada that has made an application to a foreign jurisdiction requesting that it be continued as if it had been incorporated under its laws, and

(b) any corporation incorporated outside Canada from the later of December 11, 1979 and the date on which it became resident in a foreign jurisdiction.

- Simultaneous Dividends** (39) That for the 1979 and subsequent taxation years, changes be made to the rules relating to simultaneous dividends to obviate the need for regulations.
- Foreign Accrual Property Income** (40) That
- (a) the taxable capital gains and allowable capital losses realized after December 11, 1979 and included in the foreign accrual property income of a foreign affiliate of a taxpayer exclude only the portion thereof that accrued while the affiliate was not a foreign affiliate of the taxpayer or of a person with whom he was not dealing at arm's length, and
- (b) for the 1976 and subsequent taxation years, any foreign exchange gain or loss arising on the redemption or non-arm's length disposition of the shares of a foreign affiliate of a taxpayer be excluded from foreign accrual property income.
- Partnership Elections** (41) That for dispositions of property after March 31, 1977, the partnership election rules be extended to include an election with respect to the replacement property rules.
- Allocation of Partnership Income** (42) That for fiscal periods of partnerships commencing after December 11, 1979, rules be introduced to ensure the reasonable allocation of income, losses or other amounts between non-arm's length partners.
- Donation Receipts** (43) That receipts containing prescribed information be required for all donations after 1979 for which a deduction is claimed.
- Mutual Fund Trust** (44) That for the 1979 and subsequent taxation years, the definition of "Canadian security" for the purposes of the \$1,000 investment income deduction and capital gains tax election be extended to include units of a mutual fund trust.
- Net Capital Loss Carry-over of Life Insurers** (45) That for the 1972 and subsequent taxation years, the deduction from income for a taxation year of a life insurance corporation in respect of a net capital loss carryover be reduced by the taxable Canadian dividends included in its income for the year.
- Term Preferred Shares and Income Bonds and Debentures** (46) That changes be made to the provisions relating to term preferred shares and income bonds and debentures so that
- (a) the provisions in Bill C-37 introduced in the House of Commons on January 29, 1979 relating to term preferred shares and income bonds and debentures apply for the period from November 17, 1978 to October 23, 1979,
- (b) effective after November 16, 1978, common shares will generally be excluded from the definition "term preferred share",
- (c) the definition "term preferred share" will include certain shares issued after December 11, 1979, the owner of which has the protection of an indemnity,

(d) any share or any income bond or income debenture issued to a specified financial institution and disposed of by it before October 24, 1979 not be denied dividend treatment by reason only of a reacquisition of the share after October 23, 1979 by any specified financial institution,

(e) for dividends received after November 16, 1978, a corporation not be classified as a specified financial institution by reason only of the fact that another financial institution has a prescribed equity interest in the corporation,

(f) in respect of shares acquired after December 11, 1979, a specified financial institution will include any corporation with which any such institution is associated,

(g) for the 1978 and subsequent taxation years, the deduction in respect of taxable dividends received on shares issued by specified financial institutions or corporations in financial difficulty not be denied by reason only of the existence of certain undertakings, guarantees or covenants, and

(h) relief is provided for dividends received after November 16, 1978 on term preferred shares acquired by life insurers otherwise than in the ordinary course of business.

**Canadian
Resource
Properties of
Non-
Residents**

(47) That

(a) all income from the exploitation, holding or disposition of Canadian resource properties of a non-resident who carries on a resource business in Canada after December 11, 1979, be treated as business income subject to tax under Part I of the Act, and

(b) where a non-resident person ceases to carry on a resource business through a fixed place of business in Canada at any time after December 11, 1979, his taxation year shall be deemed to end at that time and he shall be deemed to have disposed of his Canadian resource properties (including his proportionate share of any Canadian resource properties of a partnership) immediately before the end of that year at their fair market value and to have reacquired them at that value immediately after the end of the year.

**Individual
Tax Table**

(48) That for the 1979 and subsequent taxation years, certain individuals with taxable incomes not exceeding a prescribed amount be permitted to calculate their tax in accordance with a prescribed table.

**Yukon
Territory**

(49) That sections 120 and 124 of the Act be amended effective January 1, 1980 to recognize the introduction of an income tax by the Yukon Territory.

**Quebec
Abatement**

(50) That for the 1980 and subsequent taxation years, the tax reduction allowed to an individual in respect of his income earned in the Province of Quebec be refundable to the extent that it does not reduce his federal tax payable.

**Energy Tax
Credit**

(51) That for the 1980 and subsequent taxation years,

(a) a refundable energy tax credit be provided to an individual resident in Canada (other than any child in respect of whom a deduction is claimed under section 109 of the Act for the year) and phased in over a two year period so

that, when fully implemented for the 1981 and subsequent taxation years, the credit granted to an individual, or in the case of married individuals living together at the end of the year, to the designated individual, be equal to \$80 for each qualifying person, or \$30 if the person has not attained 18 years of age before the end of the year, and for this purpose "qualifying person" means the individual, his spouse with whom he resided at the end of the year and any child in respect of whom the individual or such spouse has made a deduction under section 109 of the Act for the year, but does not include any person who throughout the year was not resident in Canada or during the year was a person referred to in paragraph 149(1)(a) or (b) of the Act or was confined to a prison or other prescribed institution for a period exceeding 6 months,

(b) the amount of the credit be reduced by 5% of the amount by which the family income for the year exceeds the threshold amount of income for the year determined for the purpose of the computation of the child tax credit,

(c) rules be provided to permit the credit to be transferred between a designated individual and his spouse, and

(d) an individual and, if a designated individual, his spouse be liable to repay any overpayment of the credit and to a penalty for a false statement or omission made in connection with any claim for the credit.

Corporate Surtax

(52) That a temporary surtax of 5% of federal tax otherwise payable before any deduction for any credits in respect of foreign taxes, investment, employment or political contributions be imposed on all corporations (other than investment corporations or non-resident-owned investment corporations) for the period commencing on December 12, 1979 and ending on December 31, 1981.

Corporate Partnerships

(53) That for taxation years commencing after December 11, 1979, the amount of a corporation's income from a partnership that qualifies for the small business deduction be limited to that proportion of \$150,000 that the corporation's share of the partnership income is of the total income of the partnership and connected partnerships.

Prescribed Provincial Venture Capital Corporations

(54) That

(a) for the 1979 and subsequent taxation years, for the purposes of computing a capital loss on the disposition by a taxpayer of a share of a prescribed venture capital corporation, the amount of the loss otherwise determined be reduced by the amount of any prescribed assistance received in respect of the acquisition of the share,

(b) for the 1979 and subsequent taxation years, the ownership of shares of a corporation by a prescribed venture capital corporation not disqualify the corporation from claiming the small business deduction,

(c) for the purpose of computing the cumulative deduction account of a corporation at the end of any taxation year ending after April 10, 1978, any taxable dividends paid by the corporation to a prescribed venture capital corporation be qualifying taxable dividends paid, and

(d) for the 1977 and subsequent taxation years, any prescribed venture capital corporation be exempted from tax under Part IV of the Act.

Small Business Deduction (55) That, for taxation years commencing after 1979 in the case of a corporation in existence on October 23, 1979 and for taxation years commencing after October 23, 1979 in any other case, the corporation be deemed not to carry on a non-qualifying business with respect to income deemed by paragraph 125(8)(b) of the Act to be active business income.

Foreign Non-Business Income Taxes (56) That for the 1980 and subsequent taxation years, in computing a taxpayer's income or tax payable, no deduction be allowed in respect of income or profits taxes paid to the government of a foreign country or political subdivision thereof where such taxes

(a) would not have been paid had the taxpayer not been a citizen of that country, and

(b) cannot reasonably be attributed to income from a source outside Canada.

Investment Tax Credit (57) That for taxation years ending after December 11, 1979, the amount by which the investment tax credit deducted for the year exceeds the required deduction in respect thereof from qualified property and qualified expenditures on scientific research be included in the taxpayer's income for the year.

Foreign Investment Income (58) That, for taxation years commencing after 1979 in the case of a corporation in existence on October 23, 1979 and for taxation years commencing after October 23, 1979 in any other case, the definition "foreign investment income" be amended to exclude income from a property that is incident to, or used principally in, an active business or a non-qualifying business.

Investment Corporations (59) That

(a) a capital gains dividend payable after December 11, 1979 by an investment corporation not qualify for the purposes of the income distribution requirements relating to such corporations,

(b) a stock dividend payable after December 11, 1979 by an investment corporation be a dividend for the purposes of the Act,

(c) a late-filed election with respect to a capital gains dividend payable after 1974 by a mutual fund corporation be permitted upon payment of a penalty of 1% per month of the amount of the dividend to a maximum penalty of \$500 per year, and

(d) for taxation years ending after December 11, 1979, the rules relating to distributions of investment corporations be modified to ensure that not more than 85% of after-tax earnings is required to be distributed in a year.

Non-Resident-Owned Investment Corporations (60) That a late-filed election with respect to a capital gains dividend payable after 1974 by a non-resident-owned investment corporation be permitted upon payment of a penalty of 1% per month of the amount of the dividend to a maximum penalty of \$500 per year.

Contributed Surplus of Insurance Corporations (61) That where, after 1978, an insurance corporation converts contributed surplus related to its insurance business into paid-up capital, the amount so converted be deemed not to be a dividend.

Life Insurers' Policy Loans

(62) That for the 1978 and subsequent taxation years, for the purposes of computing the income of a life insurer, a policy loan shall not exceed the cash surrender value of the policy at the time the loan was made.

Registered Retirement Savings Plan Investments

(63) That in respect of listed common shares of taxable Canadian corporations owned by a trust governed by a registered retirement savings plan, 50% of the amount by which taxable dividends received after 1979 and capital gains attributable to a period commencing on January 1, 1980 exceed capital losses attributable to that period be deductible on a pro rata basis from amounts received as retirement income under the plan or a registered retirement income fund.

Registered Investment Fund

(64) That for the 1980 and subsequent taxation years, a pooled fund trust, investment corporation or other similar investment vehicle be required to qualify as a "registered investment fund" in order to be a qualified investment for new investments by deferred income plans and any such fund be subject to penalties for failure to comply with specified investment requirements.

Qualified Investments

(65) That the definition of qualified investment for deferred income plans be changed

(a) effective after December 11, 1979 to exclude money acquired after that date that is not legal tender in Canada or that has a fair market value greater than its stated value as legal tender,

(b) effective after December 11, 1979, to include any deposit within the meaning of the *Canada Deposit Insurance Corporation Act*, and

(c) effective after 1979, to refer to the investments of certain trusts rather than to the investment in such trusts.

Registered Retirement Income Fund Proceeds

(66) That amounts received after December 11, 1979 from a registered retirement income fund as a refund of premiums by a dependent child or grandchild of a deceased annuitant be included in the recipient's income.

Canadian Common Stock Investment Plan

(67) That for the 1980 and subsequent taxation years, a Canadian common stock investment plan for individual investors resident in Canada be introduced in respect of which the following rules will apply:

(a) an investor may have only one plan at any time,

(b) up to \$20,000 may be contributed to the plan in 1980, thereafter annual contributions may not exceed \$10,000 and total net contributions may not exceed \$100,000,

(c) the investments of the plan will be restricted to certain short-term debt obligations and to securities of taxable Canadian corporations that are common shares, warrants or rights in respect of such shares or shares that are convertible into common shares provided that such securities are listed on a prescribed stock exchange in Canada,

(d) dividends and interest received in any year by the plan will be included in the investor's income in that year, and will be required to be distributed within 90 days after the end of the year,

(e) taxable capital gains realized in the plan will not be included in the investor's income until distributed by the plan,

(f) the excess of capital gains over capital losses in the plan must be distributed before any amount may be withdrawn as a return of contributions,

(g) contributions to and withdrawals from the plan, except on termination, must be in money,

(h) contributions will not be deductible and their withdrawal will not be taxable, and

(i) a capital loss may be realized by the investor in respect of the plan only upon termination of the plan.

**Vacation-
With-Pay
Trusts**

(68) That for the 1972 and subsequent taxation years, rules be provided to exempt from tax the income of certain employee vacation-with-pay trusts provided that no part of its property, after payment of its reasonable expenses, is paid after December 11, 1979 or is available after 1980 to any person otherwise than as an employee.

**Prescribed
Form**

(69) That after December 11, 1979, taxpayers be permitted to file a prescribed form for the purpose of applying losses to the preceding year.

**Collection
Administration**

(70) That

(a) after December 11, 1979, receiver-managers and similar persons who have substantial control of the affairs of another person be required to deduct withholding tax in respect of payments caused to be made on behalf of the other person,

(b) after Royal Assent to any measure giving effect to this paragraph, where an amount is owing by a person to Her Majesty under a law of a province with which an agreement has been entered into to collect the tax payable under that law, the Minister be authorized to require the retention by way of deduction or set-off of any amount payable to such person by Her Majesty,

(c) after Royal Assent to any measure giving effect to this paragraph, the Minister have a right of action against moneys which a person served with a third party demand fails to pay both to Her Majesty and to the person to whom the moneys are owed, and

(d) after Royal Assent to any measure giving effect to this paragraph, the Minister be allowed to issue a single third party demand in respect of interest, rent or other similar periodic payments and to issue a third party demand to a financial institution in certain circumstances in respect of amounts about to be advanced to or paid on behalf of a person liable to make a payment under the Act.

**Penalties for
Failure to File**

(71) That after 1980, the penalties for failure to file a return required by subsection 150(1) of the Act be,

(a) in any case where the Minister issues a special demand and the taxpayer fails to file within the time specified therein, 20% of the unpaid tax, and

(b) in any other case, 5% of the unpaid tax plus an amount equal to 1% of the unpaid tax multiplied by the number of months not exceeding twelve that the return was past due.

Excess Dividends

(72) That where an election under subsection 83(2), 130.1(4) or 131(1) of the Act is made after December 11, 1979 with respect to any dividend, the rules in subsection 184(3) of the Act be amended to ensure that the recipient of any such dividend cannot increase the amount on which it may make an election by more than its proportionate share of the related separate dividend deemed to have been received by it.

Pre-1972 Surplus Distributions

(73) That after Royal Assent to any measure giving effect to this paragraph, in respect of a subsection 83(1) dividend that became payable by a corporation after March, 1977 and before 1979 that was either an excessive dividend or a dividend that gave rise to a gain under subsection 40(3) of the Act, the corporation be permitted to elect to treat all or any portion of the dividend as a loan by the corporation to the shareholders who received the dividend provided that

- (a) the corporation and all such shareholders agree to the election,
- (b) the corporation made a reasonable attempt to determine its 1971 surplus,
- (c) such shareholders repay the amount treated as a loan within such period as is specified by the Minister in accordance with terms and conditions specified by the Minister, and
- (d) the election is accompanied by a penalty payment and is made within a stipulated period which, in the case of a dividend that gave rise to a gain under subsection 40(3) of the Act, ends not later than December 31, 1982,

and sections 15 and 80.4 of the Act not apply to any amount so treated as a loan.

Tax on Foreign Property

(74) That the references in section 206 of the Act to cost in connection with the holding after December 11, 1979 of foreign property be changed to references to the fair market value of such property.

Buyback Agreements of Exempt Taxpayers

(75) That an exempt taxpayer who is party to an agreement to acquire shares at a price other than their fair market value at the date of acquisition be required, in respect of each month after 1979 in which he was party to the agreement, to pay a special tax of 1% of the maximum amount that may be payable by him under the agreement.

Government Resource Taxes and Exempt Institutions

(76) That any person exempt from tax under Part I of the Act be required to pay a special tax of 46% of the amounts determined under paragraphs 12(1)(o) and 18(1)(m) and any income adjustments required under subsections 69(6) to (10) of the Act in respect of his Canadian resource properties,

- (a) in the case of properties acquired after December 11, 1979, for the 1979 and subsequent taxation years, and
- (b) in any other case, for such amounts and adjustments as are applicable to a period after 1980.

Non-Resident Withholding Tax on Interest	(77) That the exemption from non-resident withholding tax for interest on long-term corporate debt not be denied with respect to interest paid or credited after 1977 solely because an agreement includes a provision for the termination of the debt if required by a change in the law or by a court.
Deemed Payments to Non-Residents	(78) That for the purposes of the non-resident withholding tax, where an amount would be required to be included in income in respect of a deferred income plan as a result of an event or transaction at any time after December 11, 1979, the amount be deemed to have been paid at that time.
Reduction of Non-Resident Withholding Tax	(79) That the provisions that permit a non-resident to elect to have a reduced rate of tax withheld from certain payments be extended to payments after 1979 under a registered retirement income fund.
Canadian Branches of Foreign Corporations	(80) That where a corporation (other than an insurance corporation) to which the branch tax applies transfers after December 11, 1979 certain property of its Canadian branch to its Canadian wholly-owned subsidiary, the amount on which the branch tax would otherwise be payable by the corporation <ul style="list-style-type: none"> (a) be increased by the amount, if any, by which the fair market value of the property transferred exceeds the corporation's proceeds of disposition in respect of that property, and (b) be reduced by the amount, if any, by which the fair market value of the property transferred exceeds the aggregate of the amount of the paid-up capital of the shares issued and the fair market value of any other consideration given by the subsidiary in respect of such property, <p>and the cost to the corporation of any shares of the subsidiary received in exchange for the property transferred be deemed to be the lesser of their paid-up capital and their cost otherwise determined immediately after the transfer.</p>
Branches of Non-Resident Insurers	(81) That a non-resident insurance corporation to which the branch tax applies be permitted to reduce the amount on which such tax would otherwise apply in respect of certain transfers of property after December 11, 1979 to a resident insurance corporation that is its Canadian wholly-owned subsidiary provided that the subsidiary elects to pay a tax equivalent to the amount of the reduction in the branch tax at such times and in such circumstances as are specified.
Source Deductions	(82) That a taxpayer be permitted to file the prescribed form necessary to have the withholding tax under subsection 153(1) of the Act from pension and certain other payments after 1979 reduced to take account of his personal exemptions and allowances.
Social Insurance Numbers	(83) That the obligation to withhold tax of 25% when an ownership certificate does not contain the Social Insurance Number be withdrawn for amounts paid after December 11, 1979 on bearer coupons and warrants.
Communication of Information	(84) That after Royal Assent to any measure giving effect to this paragraph, the Minister have authority to communicate to

- (a) officials of the Department of Finance, income tax information solely for purposes of evaluating and formulating tax policy,
- (b) officials of the Department of National Revenue, Customs and Excise, income tax information solely for the purposes of administering or enforcing the Excise Tax Act, the Excise Act, the Customs Act and the Customs Tariff, and
- (c) a taxpayer, information concerning the tax cost of property acquired by him in any case where, by reason of any provision of the Act, that cost is other than his actual cost.

Substituted Property

(85) That after December 11, 1979, the expression "property substituted therefor" be generally defined for the purposes of the Act to include property acquired in a series of substitutions of property.

Definition of "Province"

(86) That after Royal Assent to any measure giving effect to this paragraph, the definition of "province" in subsection 248(1) of the Act be deleted.

Option Control

(87) That a person who acquires a right at any time after December 11, 1979 with respect to shares of a corporation be deemed to have acquired the shares at that time if one of the purposes of the acquisition can reasonably be considered to be the avoidance of the limitations on the deductions with respect to Canadian exploration and development expenses, Canadian exploration expenses, Canadian development expenses, Canadian oil and gas property expenses, non-capital losses and net capital losses.

Extended Meaning of a Child

(88) That for the 1979 and subsequent taxation years, a child of a taxpayer include any child of his spouse and, for greater certainty, his adopted child.

Offshore Resource Exploration

(89) That after Royal Assent to any measure giving effect to this paragraph, the expression "in Canada" shall with respect to specified resource exploration and exploitation activities be declared to include and to have always included the seas and airspace over the submarine areas referred to in section 255 of the Act.

Amalgamations

(90) That after Royal Assent to any measure giving effect to this paragraph, the rules in paragraph 256(7)(b) of the Act dealing with the carry-forward of losses on an amalgamation be amended by replacing the references to "a group of related persons" with references to "a group of persons".

**Notice of Ways
and Means Motion**

Excise Tax Act

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

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

1. That the definition "cosmetics" in subsection 2(1) of the Act be repealed and the following substituted therefor:

" "cosmetics" means articles, materials or preparations of whatever composition or in whatever form, commonly or commercially known as toilet articles, preparations or cosmetics, that are intended for use or application for toilet purposes, or for use in connection with the care of the human body, including the hair, nails, eyes, teeth, or any other part or parts thereof, whether for cleansing, deodorizing, beautifying, preserving or restoring, and including toilet soaps, shaving soaps and shaving creams, antiseptics, bleaches, depilatories, perfumes, scents and similar preparations;"

2. That the definition of "manufacturer or producer" in subsection 2(1) of the Act be amended by repealing paragraph (d) thereof and substituting therefor the following:

"(d) a person who sells, otherwise than in a retail store exclusively and directly to consumers, cosmetics that were not manufactured by him in Canada;"

3. That a manufacturer or producer of cosmetics as defined in any enactment based on paragraph 2 of this motion, who imports cosmetics into Canada, be deemed to be the manufacturer or producer in Canada of the cosmetics so imported and not the importer thereof.

4. That subsection 26(1) of the Act be amended by repealing paragraph (e) of the definition "producer or manufacturer".

5. That the consumption or sales tax not be payable on cosmetics sold to or imported by a person who is described in paragraph (d) of the definition "manufacturer or producer" in subsection 2(1) and who is a licensed manufacturer under the Act.

6. That the Minister of National Revenue be given the authority to determine the value for tax of cosmetics for the purposes of calculating the consumption or sales tax payable by the licensed manufacturer who produced the goods in Canada where a non-resident person deemed to be the manufacturer of such cosmetics pursuant to the Act fails to apply for a licence as required by section 31 of the Act.

7. That section 10 of the Act be amended by adding thereto the following subsection:

“(4) The tax imposed by subsection (1), as determined under subsection (2), on each amount paid or payable for transportation of a person by air is not payable in the case of transportation purchased as part of a continuous journey where

- (a) the journey includes a charter flight in respect of which tax is imposed under this section or section 11; and
- (b) evidence of the continuous journey is submitted by the person to the licensed air carrier or his agent from whom the transportation by air is purchased.”

8. That subsection 21(2) of the Act be repealed and the following substituted therefor:

“(2) Where the goods are imported, such excise tax shall be paid by the importer or transferee who takes the goods out of bond for consumption at the time when the goods are imported or taken out of warehouse for consumption, and where the goods are manufactured or produced and sold in Canada, such excise tax shall be payable by the manufacturer or producer at the time of delivery of such goods to the purchaser thereof.”

9. That subsection 2(1) of the Act be amended by adding thereto immediately after the definition “cosmetics” the following:

“ “diesel fuel” includes any fuel oil that is suitable for use in internal combustion engines of the compression-ignition type, other than any such fuel oil that is intended for use and is actually used as heating oil;”

10. That Schedule IV of the Act be repealed and the following substituted therefor:

“ Schedule IV

- 1. Petroleum products, namely,
 - (a) gasoline, premium, no lead ...1.3 cents per litre
 - (b) gasoline, grade 11.2 cents per litre
 - (c) gasoline, grade 21.1 cents per litre
 - (d) gasoline, no lead1.1 cents per litre
 - (e) diesel fuel1.0 cents per litre

and for the purposes of this section, the expressions “gasoline, premium, no lead”, “gasoline, grade 1”, “gasoline, grade 2”, “gasoline, no lead” and “diesel fuel” have the meanings assigned thereto by regulation of the Governor in Council.”

11. That the specific rates of consumption or sales tax imposed on gasoline and diesel fuel be amended to an ad valorem rate of 9 per cent on the sale price.

12. That the 9 per cent ad valorem consumption or sales tax be imposed on fuel which has been purchased or imported exempt from tax for heating or lighting and is subsequently sold or used for a purpose for which the fuel could not have been so purchased or imported exempt from tax, payable, in the case of a sale, by the person who sells the fuel at the time of delivery to the purchaser, and in the case of an appropriation for use, by the person who so uses the fuel at the time of such appropriation for use.

13. That the Minister of National Revenue be authorized to determine the value for tax of fuel on which a tax is imposed pursuant to any enactment based on paragraph 12 of this motion.

14. That the 10 cent per gallon excise tax on gasoline be amended as follows:

(a) effective November 17, 1978, the excise tax on gasoline be reduced to 7 cents per gallon,

(b) effective November 17, 1978, an excise tax of 7 cents per gallon be imposed on aviation gasoline,

(c) effective January 1, 1979, the excise tax referred to in paragraphs (a) and (b) be amended to 1.5 cents per litre, and

(d) effective December 12, 1979, the rate of excise tax referred to in paragraph (c) be amended to 5.5 cents per litre and an excise tax of 5.5 cents per litre be imposed on all other aviation fuels and on diesel fuel.

15. That an excise tax of 5.5 cents per litre be imposed on all fuel oils other than aviation fuels and diesel fuel, when sold or appropriated as fuel for use in an internal combustion engine or as a fuel for use on a ship or other marine vessel, payable, in the case of a sale, by the person who so sells the fuel oil at the time of delivery, and in the case of an appropriation for use, by the person who so uses the fuel oil at the time of such appropriation for use.

16. That

(a) the excise tax on gasoline and the consumption or sales tax on gasoline and diesel fuel be payable not later than at the time of delivery to a retail outlet,

(b) the excise tax on diesel fuel be payable not later than at the time of delivery to a retail outlet, and

(c) where gasoline or diesel fuel was held in inventory at a retail outlet and the consumption or sales tax on such gasoline or diesel fuel or the excise tax on gasoline had not been paid or become payable on or before November 16, 1978, the said gasoline or diesel fuel be deemed to have been delivered to the purchaser thereof on November 17, 1978.

17. That for the purposes of the ad valorem tax imposed on gasoline and diesel fuel, sale price be defined in the Act as the aggregate of

(i) any amount that the purchaser is liable to pay to the vendor by reason of or in respect of the sale in addition to the amount charged as price (whether payable at the same or some other time) including, without limiting the generality of the foregoing, any amount charged for, or to make provision for, advertising, financing, servicing, warranty, commission or any other matter, and

(ii) where the gasoline or diesel fuel is

(A) sold to a person who operates a retail service station as an independent owner or a lessee of the manufacturer or producer, the amount charged by the

manufacturer or producer as the selling price, in the zone or territory in which the sale is made, of the manufacturer's or producer's own brand products to a retail service station purchasing such goods,

(B) delivered to a retail service station operated by the manufacturer or producer, the amount charged or recorded by him as the transfer price or other price, or

(C) sold to any other person, the greater of the amounts that would have been charged or recorded as the price in subparagraphs (A) and (B), had such sale or delivery as therein described taken place,

in each case before any amount payable in respect of the excise tax on gasoline or diesel fuel is added thereto, and where in the opinion of the Minister of National Revenue the sale price so determined is not a fair price for the purpose of determining the amount of tax payable, the Minister may determine the fair price on which the tax payable shall be computed, and, in the case of gasoline or diesel fuel imported by a person not deemed to be the manufacturer or producer thereof, the sale price be deemed to be the duty paid value of the goods.

18. That a licensed manufacturer of gasoline or diesel fuel be deemed to be the manufacturer of gasoline or diesel fuel purchased from another licensed manufacturer of these products.

19. That authority be provided for the Minister of National Revenue to pay to the purchaser, or in accordance with such terms and conditions as the Governor in Council may by regulation prescribe, to the manufacturer, producer, wholesaler, jobber or other dealer, an amount equal to the excise tax paid on aviation gasoline purchased during the period beginning on November 17, 1978 and ending on December 11, 1979, where the aviation gasoline was for the sole use of

(a) the purchaser in the provision of public air transportation of passengers, freight or mail,

(b) the purchaser in the provision of air services directly related to

(i) exploration and development of natural resources,

(ii) aerial spraying, seeding and pest control,

(iii) forestry,

(iv) fish cultivation,

(v) aerial construction operations using rotating wing aircraft,

(vi) aerial fire control, fire protection and fire fighting, or

(vii) map making operations, or

(c) a person engaged in the business of testing aircraft engines,

and not for resale or any other use.

20. That the authority in section 47 of the Act for the Minister of National Revenue to pay an amount equal to the tax paid on gasoline not apply in respect of gasoline purchased after December 11, 1979.

21. That authority be provided for the Minister of National Revenue to pay to the purchaser an amount equal to 2.2 cents per litre, in respect of each litre of gasoline or diesel fuel purchased by

(a) a farmer, for use in farm machinery or equipment other than automobiles, station wagons, vans and trucks,

(b) a fisherman, for use in a boat for commercial fishing, or

(c) a municipal corporation, board, commission or other local authority operating a municipal public transit service, for use by it in buses to provide such service

where the gasoline or diesel fuel is for the sole use of the purchaser and not for resale and application has been made to the Minister in the prescribed form within four years from the time the gasoline or diesel fuel was purchased.

22. That the provisions of section 47.1 and subsections 47(2) and (4) of the Act be extended to apply to payments in respect of aviation gasoline, gasoline and diesel fuel.

23. That the time period be specified within which any amount owing to Her Majesty in right of Canada as a result of an overpayment of an amount to a taxpayer or other prescribed person in respect of the excise tax on gasoline, diesel fuel or aviation fuel shall be payable and that a penalty be imposed upon default in payment of the said amount within the time limit so specified.

24. That where gasoline, aviation fuel, diesel fuel or other fuel oils are exported or sold as ships' stores, an exemption, deduction, refund or drawback of the excise tax be provided only where evidence satisfactory to the Minister is produced to establish that the goods have been exported or sold as ships' stores and, in the case of goods refined from domestic crude oil, an oil export charge is imposed on the goods pursuant to Part I of the Petroleum Administration Act and has been paid and not recovered, and in the case of goods which were imported or refined from non-Canadian crude oil, any import compensation amount paid pursuant to Part IV of the Petroleum Administration Act in respect of either the goods or the oil from which they were refined, has been recovered.

25. That no refund of the excise tax on gasoline, aviation fuels, diesel fuel or other fuel oil be granted when such goods are sold to or imported by Her Majesty in right of a province.

26. That a person who submits false or deceptive tax recovery claims be guilty of an offence and liable to a penalty.

27. That the excise taxes imposed on wines under sections 24 and 25 of the Act be repealed and the following excise taxes be imposed on all wines produced in Canada or imported:

(a) on wines of all kinds containing not more than seven per cent of absolute alcohol by volume ... sixty cents per gallon;

(b) on wines of all kinds containing more than seven per cent absolute alcohol by volume but not more than fourteen per cent absolute alcohol by volume ... one dollar and twenty five cents per gallon; and

(c) on wines of all kinds containing more than fourteen per cent absolute alcohol by volume ... three dollars per gallon.

28. That the excise taxes on wines be payable in the case of imported wines by the importer when the goods are entered into Canada, in the case of domestic wines by the manufacturer or producer when the goods are delivered to the purchaser or taken by the manufacturer or producer for his own use, and in the case of wines purchased or imported by a licensed wholesaler who is deemed by subsection 32(1.1) of the Act to be a bona fide wholesaler or jobber, by such person when the goods are delivered by him to the purchaser or taken for his own use.

29. That the excise taxes imposed by Part IV of the Act not be payable in the case of goods that are purchased or imported by a manufacturer licensed under Part III of the Act or under section 129 of the Excise Act, and that are to be incorporated into and form a constituent or component part of an article or product that is subject to an excise tax under the Act.

30. That for the purposes of the consumption or sales tax imposed on domestic and imported wines, the definition of sale price be amended to include the excise taxes imposed on wines.

31. That a person who processes photographic film supplied to him by his customer or who produces a print, negative, transparency or similar product from a good supplied to him by his customer, be deemed to be the manufacturer or producer of the goods resulting from such processing or producing operations and be liable for the 9 per cent consumption or sales tax on the charge he makes for these services to his customer.

32. That the ad valorem consumption or sales tax be imposed at the following rates:

(a) twelve per cent on the sale price of wines and 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,

(b) five per cent on the sale price of articles enumerated in Schedule V, and

(c) nine per cent on the sale price of all other goods to which subsection 27(1) of the Act presently applies.

33. That the consumption or sales tax imposed on goods produced or manufactured in Canada for use by the producer or manufacturer be payable at the time the goods are appropriated for use.

34. That the authority to make regulations exempting any class of small manufacturer or producer from payment of the consumption or sales tax on goods manufactured or produced by them, be vested in the Governor in Council, on the joint recommendation of the Minister of Finance and the Minister of National Revenue.

35. That the Minister of National Revenue be given the authority to require, by registered letter or demand served personally, the production of any book, record or

information from any person for any purpose related to the administration or enforcement of the Act and that a penalty be imposed upon failure to comply with the requirement.

36. That where, at the date of issuance of a licence, a person has tax paid new or unused goods in inventory that he would have been authorized to purchase, pursuant to subsection 21(2.3),(3), (3.1) or 27(2) without payment of the consumption or sales tax or an excise tax under his licence had he been licensed at the time of purchase, the Minister be authorized to grant, in such manner as he may prescribe, a deduction, refund or payment of an amount equal to the lesser of the tax actually paid at the time of purchase of the goods and the tax that would have been payable had the goods been acquired at the date of issue of the licence.

37. That the provisions relating to drawback of taxes imposed by the Act be amended to increase the drawback from ninety-nine to one hundred per cent.

38. That the penalty for default in payment or remittance of any tax or portion thereof payable or collectible under the Act within the time prescribed be increased to one per cent per month, calculated on the total balance outstanding.

39. That the references to "registered mail" or "registered letter" in subsections 52(4), 52(6), 52(8) and 52(10) of the Act be extended to include a letter, notice or other document that is served personally.

40. That any requirement for a person to pay moneys, otherwise payable to a licensee or other person, to the Receiver General on account of the licensee's or other person's liability under Parts II to VI of the Act, be made applicable to all future moneys which may become payable by that person to the licensee or other person, until such time as the liability under the Act is satisfied.

41. That the references to "licensee" in subsections 52(6), 52(7), 52(8) and 52(10) of the Act and any enactment based on paragraph 40 of this motion, be extended to apply to any person indebted to Her Majesty pursuant to Parts II to VI of this Act.

42. That the requirement to keep books and records in subsection 57(1) of the Act be extended to apply to any person who applies for a deduction from or a refund or drawback of any tax paid, or any other payment, under this Act.

43. That the provisions of subsection 57(8) of the Act relating to assessments for failure to keep records or books of account, be extended to apply to a person who has failed to apply for a licence as required pursuant to this Act.

44. That subsection 59(4) of the Act be repealed.

45. That the penalty for wilful attempt to evade or defeat any tax imposed by the Act be modified to impose a fine of not more than twelve thousand dollars or imprisonment for a term of not more than twelve months or both a fine and imprisonment.

46. That the 5 per cent excise tax on large motorcycles and the 10 per cent excise tax on boat motors exceeding twenty horsepower and on aircraft, be repealed.

47. That the exemption for coverings or containers in Part I of Schedule III to the Act, other than for those listed in paragraphs 1(a) to (k), be limited to coverings or

containers purchased or imported by manufacturers or producers for use exclusively in covering or containing goods of their own manufacture or production which are not subject to the consumption or sales tax.

48. That the exemption for coverings and containers listed in paragraphs 1(a) to (k) of Part I of Schedule III be amended by repealing the exemption for bags for packaging fruits and vegetables and for plastic bags for milk or cream and by adding an exemption for cartons for eggs.

49. That the exemption from the consumption or sales tax for portrait photographs of individuals be repealed.

50. That the exemption from consumption or sales tax of twenty-five per cent of the sale price or duty paid value, as the case may be, of trailers for use as homes, be repealed.

51. That the following goods be made exempt from the consumption or sales tax:

(a) blast furnace slag and boiler slag, not further processed than crushed and screened;

(b) fifth wheel dollies designed to convert semi-trailers and tractor trailers to full trailers for highway towing purposes;

(c) devices designed to convert sound to light signals for use by the deaf, when purchased on the written order of a registered medical practitioner; and

(d) solar water heaters.

52. That paragraphs (1)(p) and (q) of Part XIII of Schedule III to the Act be repealed and the following substituted therefor:

“(p) photocopiers and other office type reproduction equipment for use by persons exempted from consumption or sales tax under subsection 31(2) and whose principal business is other than printing; office equipment;

(q) motor vehicles except those described in paragraphs (e) and (h); or

(r) goods for use by persons exempt from payment of consumption or sales tax under subsection 31(2), other than those persons prescribed by regulation of the Governor in Council.”

53. That the exemption from the consumption or sales tax for production equipment, processing materials and plans be amended to clarify that manufacturer or producer does not include a person engaged in the preparation of food or drink in a restaurant or other similar establishment whether or not such food or drink is for consumption on the premises.

54. That section 6 of Part XVII of Schedule III to the Act be repealed and the following goods be made exempt from the consumption or sales tax:

aircraft, parts and equipment therefor, purchased or imported for use exclusively in the provision of

(i) public air transportation of passengers, freight or mail; or

(ii) air services directly related to the exploration and development of natural resources, aerial spraying, seeding and pest control, forestry, fish cultivation, aerial construction operations using rotating wing aircraft, aerial fire control, fire protection and fire fighting or map making operations.

55. That the exemption from the consumption or sales tax for parts and equipment designed for permanent installation or installed on the tax exempt goods mentioned in section 1 of Part XVII of Schedule III to the Act be limited to those parts and equipment designed to facilitate the carriage and handling of freight.

56. That section 5 of Part XVIII of Schedule III to the Act be repealed and the following substituted therefor:

“5. Thermal insulation materials designed exclusively for insulation of buildings and having a thermal resistance as installed (R value) greater than 2.4 per inch of material, but not including board and sheet materials of a thickness which provides a total thermal resistance of less than 3.”

57. That section 7 of Part XVIII of Schedule III to the Act be repealed.

58. That any enactment founded on

(a) paragraphs 8, 16(a) and (c), 19, 32, 46, 50, 51(c) and (d) 52, 56 and 57 be effective on November 17, 1978;

(b) paragraph 10 be effective on January 1, 1979;

(c) paragraph 33 be effective on April 1, 1975;

(d) paragraph 7 be effective on April 1, 1979;

(e) paragraph 44 be effective on November 17, 1978, but any enactment based on this paragraph not apply in respect of taxes paid more than one year preceding that day; and

(f) paragraphs 1 to 6, 9, 11 to 13, 15, 16(b), 17, 18, 20 to 22, 24, 25, 27 to 31, 36, 37, 38, 47 to 49, 51(a) and (b), 53, 54 and 55 be effective on December 12, 1979.

**Notice of Ways
and Means Motion**

Excise Act

Notice of Ways and Means Motion an Act 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 the definition "Canadian brandy" in subsection 3(1) of the Act be repealed.
2. That subsections 149(1) to (4) of the Act be repealed and the following substituted therefor:

"149(1) All spirits produced, brought into or removed from a distillery shall be warehoused, entered for warehouse or ex-warehoused in such manner and put up in such packages or quantities as may be prescribed by departmental regulations."

3. That the penalties imposed under subsections 158(1) and 163(2) of the Act for offences listed thereunder be modified to increase the minimum fine to five hundred dollars, to increase the maximum fine to ten thousand dollars, to remove the references to "with or without hard labour" with respect to imprisonment, to delete the additional penalties prescribed for subsequent offences, and to delete the minimum term of imprisonment.

4. That section 166 of the Act be repealed.

5. That section 249 of the Act be amended by adding thereto, immediately after the definition "denatured alcohol" the following:

" "denatured spirits" means spirits in suitable admixture with such denaturants as to render them in the opinion of the Minister non-potable and to prevent the recovery of ethyl alcohol;"

6. That the Minister of National Revenue be authorized to grant a special temporary licence to any person who has complied with the provisions of this Act to engage in the manufacture of denatured spirits for use solely in experimentation and development of a fuel where the denatured spirits and fuel are for the person's own use and not for sale or distribution.

7. That, in relation to the special temporary licence for the production and manufacture of denatured spirits, the Act be further amended to establish rules relating to

- (a) posting of security by applicants
- (b) information to be provided at the time of application for a licence,
- (c) the period for which the licence will be valid,

- (d) persons who may not be granted a licence,
- (e) the keeping of books and records,
- (f) cessation of manufacturing operations, destruction of spirits and disposal of equipment on expiry of a licence, and
- (g) seizure of spirits, stills and other apparatus in the possession of persons otherwise than in accordance with the Act,

and to provide for departmental regulations relating to equipment, premises, facilities and controls to be provided by the person, respecting his operations.

8. That sections 254, 258, 259 and 261 be read and construed as applying to denatured spirits and that the provisions of section 251 not apply to the operations of a person to whom a special temporary licence has been granted.

9. That the excise duties imposed on spirits not be exigible in the case of denatured spirits produced by a person to whom a special temporary licence has been granted.

10. That the excise duty on spirits be increased to seventeen dollars and fifteen cents on every gallon of strength of proof.

11. That Part II of the Schedule be repealed.

12. That the excise duty on beer be imposed at the following rates:

(a) fifty-four cents per gallon on all beer or malt liquor containing more than 2.5 per cent absolute alcohol by volume;

(b) twenty-seven cents per gallon on all beer or malt liquor containing more than 1.2 per cent absolute alcohol by volume but not more than 2.5 per cent absolute alcohol by volume; and

(c) five cents per gallon on all beer or malt liquor containing not more than 1.2 per cent absolute alcohol by volume.

13. That the excise duties on tobacco, cigars and cigarettes be imposed at the following rates:

(a) on manufactured tobacco of all descriptions except cigarettes, sixty-four cents per pound actual weight;

(b) on cigarettes weighing not more than three pounds per thousand, six dollars and ten cents per thousand;

(c) on cigarettes weighing more than three pounds per thousand, seven dollars and twenty cents per thousand;

(d) on cigars, two dollars and twenty cents per thousand, and

(e) on Canadian raw leaf tobacco, when sold for consumption, eleven cents per pound actual weight.

14. That any enactment founded on paragraphs 1, 2 and 10 to 13 be effective on December 12, 1979.

Notice of Ways and Means Motion

Customs Tariff

Notice of Ways and Means Motion

Customs Tariff

1. That the Schedule to subsection 3.1(3) of the *Customs Tariff* be amended by striking out tariff item 11400-2 and the enumeration of goods and the rate of duty set opposite that item, and by inserting in the Schedule to the said subsection the following item, enumeration of goods and rate of duty:

Tariff Item	General Preferential Tariff	Rate in Effect Prior to Rate Proposed in this Motion
		General Preferential Tariff
11400-2 <i>Nuts of all kinds, processed or prepared in any manner, n.o.p., including roasted, fried, boiled, ground, salted, seasoned or otherwise flavoured; nuts pickled or preserved in salt, brine, oil or in any other manner, n.o.p.</i>	7½ p.c.	7½ p.c.

2. That subsection 13(2) of the said Act be repealed.
3. That subsection 21(1) of the said Act be amended by
 - (a) adding to the list of tariff items in subparagraph (a)(i) thereof, the following tariff item "15620-1", and
 - (b) deleting therefrom paragraph (b).
4. That tariff items 16205-1, 16210-1, 16215-1, 16305-1, 16310-1, 16315-1, 16320-1 and 16325-1, in Schedule A to the said Act be amended by deleting references to "And in addition thereto, under all tariffs 42½ cents per gallon" wherever they occur therein.
5. That tariff items 16405-1, 16405-2, 16410-1 and 16410-2 in Schedule A to the said Act be amended by deleting references to "And in addition thereto 42½ cents per gallon" wherever they occur therein.
6. That tariff items 16501-1, 16502-1, 16503-1 and 16504-1 in Schedule A to the said Act be amended by deleting references to "And in addition thereto, under all tariffs \$1.75 per gallon" and to "And in addition thereto \$1.75 per gallon" wherever they occur therein.
7. That Schedule A to the said Act be amended by striking out tariff items 7803-1, 7804-1, 7935-1, 10900-1, 11400-1, 40960-1, 41233-1, 44503-1, 44533-1, 69005-1, 69640-1, 70320-1 and 70410-1, and the enumerations of goods and the rates of duty set opposite each of those items and by inserting in Schedule A to the said Act the following items, enumerations of goods and rates of duty:

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion		
					B.P. Tariff	M.F.N. Tariff	General Tariff
7803-1	Hydrangeas and other pot-grown plants, n.o.p.; buds, scions and other stock for grafting or budding purposes, n.o.p.; bulbs, corms, tubers, rhizomes and dormant roots, n.o.p.	Free	12½ p.c.	20 p.c.	Free	12½ p.c.	20 p.c.
7804-1	Hydrangeas and other pot-grown plants, n.o.p.; buds, scions and other stock for grafting or budding purposes, n.o.p.; bulbs, corms, including gladiolus corms, tubers, rhizomes and dormant roots, n.o.p.; dwarf polyantha rose bushes; All the foregoing for use by florists or nurserymen for bona fide forcing purposes or growing on prior to disposal	Free	Free	20 p.c.	Free	Free	20 p.c.
7810-1	Cactuses, grafted cactuses, cactus cuttings and grafted cactus cuttings	Free	Free	20 p.c.	Free Free 15 p.c.	12½ p.c. Free 17½ p.c.	20 p.c. 30 p.c. 25 p.c.
7935-1	Rose stock, including buds and scions, for grafting or budding purposes	Free	Free	Free	Free Free Free	Free Free 12½ p.c.	Free 20 p.c. 20 p.c.
10900-1	Nuts of all kinds, n.o.p., whether or not shelled, graded, sorted, blanched, dried, cut, chopped or sliced, but not otherwise processed or prepared	Free	Free	3 cts.	Free	Free	3 cts.
11400-1	Nuts of all kinds, processed or prepared in any manner, n.o.p., including roasted, fried, boiled, ground, salted, seasoned or otherwise flavoured; mixtures of fruits and nuts prepared or processed in any manner; nuts pickled or preserved in salt, brine, oil or in any other manner, n.o.p.	10 p.c.	10 p.c.	35 p.c.	10 p.c.	10 p.c.	35 p.c.
40960-1	Roofs, chutes, ladders, wall sections with or without doors incorporated therein, materials and parts; all of the foregoing for the construction or repair of silos for storing ensilage, or of tanks or vessels for storing animal excreta	10 p.c.	10 p.c.	25 p.c.	10 p.c. 10 p.c.	10 p.c. 17½ p.c.	25 p.c. 35 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion		
					B.P. Tariff	M.F.N. Tariff	General Tariff
41233-1	Sheets or plates of <i>metal, plastic or other materials</i> , photopolymer coated, for the production of printing plates, materials for such plates, for use in the reproduction of material in newspapers by the letterpress printing process	Free	Free	25 p.c.	Free 10 p.c.	Free 15 p.c.	25 p.c. 25 p.c.
44140-1	<i>Twin shot shells designed for use as bird scaring devices</i>	Free	Free	Free	10 p.c.	20 p.c.	30 p.c.
44503-1	Parts of electric light fixtures and appliances which would otherwise be classified under tariff item 44500-1, but not including electric cords, plugs, sockets, switches, connectors, ballasts, or assemblies incorporating any of the foregoing	15 p.c.	15 p.c.	30 p.c.	15 p.c.	15 p.c.	30 p.c.
44533-1	Radio and television apparatus and parts thereof, n.o.p. <i>Except that</i> a) in the case of colour television receiving sets that are the manufacture of any country, colony, protectorate or territory to which the benefits of the British Preferential Tariff have been extended, the Most-Favoured-Nation Tariff applies until December 31, 1987. b) in the case of television apparatus and parts thereof, for use in community antenna television transmission lines, that are the manufacture of the United Kingdom of Great Britain and Northern Ireland, the Channel Islands, the Isle of Man, or <i>the Republic of Ireland</i> , the Most-Favoured-Nation Tariff applies.	Free	15 p.c.	25 p.c.	Free	15 p.c.	25 p.c.
69005-1	Casual donations sent by persons abroad to friends in Canada, or brought into Canada personally by non-residents as gifts to friends, and not being advertising matter, tobacco or alcoholic beverages, when the value thereof does not exceed <i>twenty-five</i> dollars in any one case, under such regulations as may be prescribed by the Minister	Free	Free	Free	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 <i>Customs Act</i> in the case of any casual donation described in this item which, but for the fact that the value thereof in any one case exceeds <i>twenty-five</i> dollars, would have been entitled to entry under this item, shall be reduced by <i>twenty-five</i> dollars.						

Tariff Item	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	Rates in Effect Prior to Rates Proposed in this Motion		
				B.P. Tariff	M.F.N. Tariff	General Tariff
69640-1						
Sound recordings of an instructional character for the promotion of knowledge of the arts, sciences, professions, crafts or trades, but not including musical recordings or recordings of an entertainment or advertising character; <i>recordings of the Bible, including excerpts thereof and commentary thereon</i>	Free	Free	25 p.c.	Free 15 p.c. 15 p.c.	Free 15 p.c. 15 p.c.	25 p.c. 25 p.c. 30 p.c.
70320-1						
Goods imported by a member of the Canadian Forces or an employee of the Canadian Government, or by a former resident of Canada returning to Canada to resume residence therein, and acquired by him during an absence from Canada of not less than one year for personal or household use and actually owned by him abroad and in his possession and use for at least six months prior to his return to Canada	Free	Free	Free	Free Various	Free Various	Free Various
<p><i>The provisions of this tariff item shall apply to alcoholic beverages not exceeding forty ounces and tobacco not exceeding fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco where a) they are included in the baggage accompanying the importer, and b) no exemption is being claimed in respect of alcoholic beverages or tobacco under any other tariff item at the time of importation.</i></p> <p>The Governor in Council may, by order, exempt in whole or in part, any goods or classes of goods for any class of persons from any or all of the six-month ownership, possession or use requirements set out in this item.</p> <p>Goods entitled to entry under this item shall be exempt from all imposts notwithstanding the provisions of this Act or any other Act except that</p> <p>(a) any article entered under this item which was acquired after March 31, 1977 by the person claiming the exemption hereunder and which has a value for duty as determined under the <i>Customs Act</i> of more than \$10,000 is subject to the duties and taxes as otherwise prescribed on the amount of the value for duty in excess of \$10,000, and</p> <p>(b) any goods imported under this item which are sold or otherwise disposed of within twelve months after importation are subject to the duties and taxes otherwise prescribed.</p>						

8. That Schedule B to the said Act be amended by deleting references to "99 p.c." wherever they occur therein and by substituting in every case references to "100 p.c."

9. That any enactment founded upon this motion shall be deemed to have come into force on the 12th day of December, 1979, and to have applied to all goods mentioned in the said motion imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

Supplementary Information

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Federal Revenue Effects of Budget Tax Measures

	Effective Date	Revenue Effect				
		1979/80	1980/81	1981/82	1982/83	1983/84
		(\$ millions)				
Excise tax on transportation fuels, less rebates	Immediate	+535	+2545	+2495	+2470	+2455
Energy tax on producer revenues from incremental increases in oil and gas prices	July 1, 1980	-	+415	+1640	+2650	+3630
Refundable energy tax credit	Jan. 1, 1980	-	-	-500	-1000	-1000
Canadian Common Stock Investment Plan*	Jan. 1, 1980	-	-	-25	-60	-70
Changes in RRSP provisions to promote investments in common stock*						
Small Business Development Bond*	Immediate	-	-70	-70	-70	-70
Deductibility of spousal salary by unincorporated businesses*	Jan. 1, 1980	-	-75	-160	-185	-210
Reduce write-off for oil and gas properties*	Immediate	-	+75	+120	+150	+165
Temporary corporate surtax	Immediate	+10	+370	+510	+95	-
Increase levies on tobacco	Immediate	+20	+85	+85	+85	+85
Change levies on alcoholic beverages	Immediate	+20	+130	+135	+140	+145
New tax credit for employment of youth and handicapped	1980	-	-135	-250	-250	-115
Refundability of 16.5-per-cent personal income tax abatement to Quebec residents	Jan. 1, 1980	-	-10	-20	-30	-35
Total revenue effect of Other Measures		+10	+35	+40	+45	+55
Net Total		+595	+3365	+4000	+4040	+5035

Federal Revenue Effects of Budget Tax Measures—Continued

	Effective Date	Revenue Effect				
		1979/80	1980/81	1981/82	1982/83	1983/84
		(\$ millions)				
<u>Details of Other Measures</u>						
Contributions of capital gains on farmland to an RRSP*	Immediate	Revenue loss about \$5 million per annum.				
Incentive for Atlantic fishing vessels*	Immediate	Results in tax deferral. Revenue impact will depend upon use made of the incentive and leasing arrangements.				
Increase in exemption for volunteer firemen*	Jan. 1, 1980	-	-2	-2	-2	-2
Relief for temporary overseas employment*	Jan. 1, 1980	No data available on remuneration of employees in prescribed countries.				
Temporary extension of reduced frontier depletion allowance*	Apr. 1, 1980	-	-	-5	-	-
Extend and broaden energy conservation equipment write-off*	Immediate	Revenue loss of about \$5 to 10 million per annum.				
Change application of sales tax on cosmetics	Immediate	+5	+30	+35	+40	+45
Extend sales tax to photofinishing	Immediate	+2	+10	+12	+14	+16
Restrict sales tax exemption for containers and coverings	Immediate	Revenue increase of about \$5 million per annum.				
Change sales tax exemption for transportation equipment	Immediate	Preventive measure. No precise estimates available.				
Convert sales tax on gasoline and diesel fuel from specific to ad valorem levy	Immediate	Preventive measure. Maintains real value of federal sales tax.				
Restrict contributions to unregistered employee pension plans*	Immediate	Preventive measure. Revenue loss substantial if no action taken.				
Change timing of deduction for prepaid expenses*	Immediate	Preventive measure. Revenue loss substantial if no action taken.				
Change tax treatment of lease/leaseback arrangements for property*	Immediate	No estimates available because of lack of access to detailed information on tax returns.				

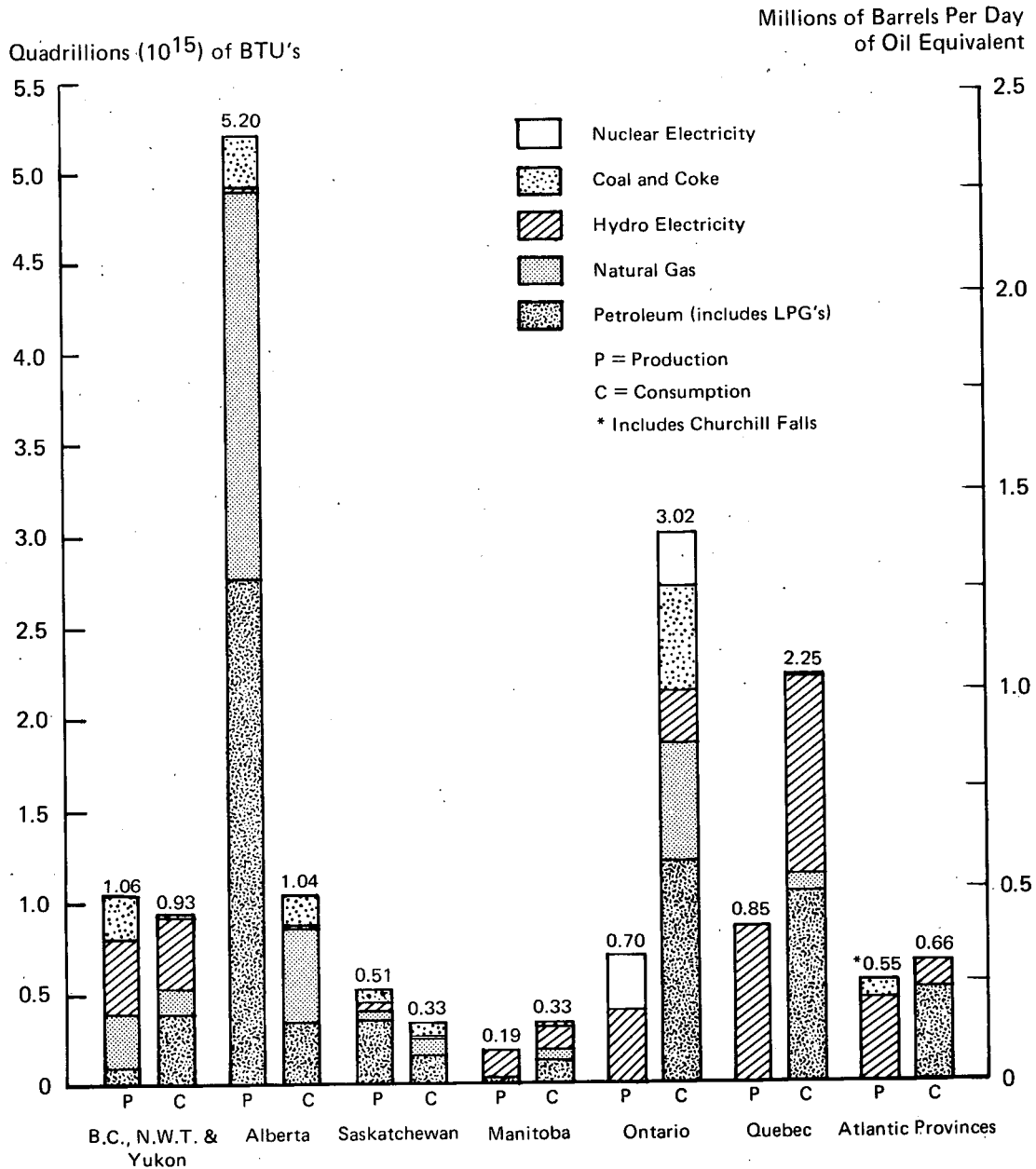
Federal Revenue Effects of Budget Tax Measures—Concluded

	Effective Date	Revenue Effect				
		1979/80	1980/81	1981/82	1982/83	1983/84
(\$ millions)						
Income Tax and Family Law						
—Income attribution rules for separated couples*	Immediate	Revenue effects minimal.				
—Maintenance payments to children out of marriage and common-law spouses*	Immediate	No data currently collected on the amounts of such payments.				
—Tax-free inter-spousal rollovers of property*	Jan. 1, 1980	Revenue effects minimal.				
Broaden medical expense deduction*	Immediate	Revenue effects minimal.				
Deductibility of costs of employee aircraft*	1980	No estimates available on use of aircraft by employees.				
Non-taxation of vacation pay trusts	Jan. 1, 1972	No estimates available because of lack of access to detailed information on tax returns.				
Other technical amendments*	Various	Mostly preventive measures.				

* An asterisk indicates that the measure also affects provincial tax revenues.

Chart 1

Regional Primary Energy Production and Consumption 1978



The trade prospects for natural gas as indicated in the latest National Energy Board (NEB) report continue to be encouraging. The Board has determined that the amount of gas surplus to Canadian requirements, after allowing for domestic demand growth and extension into Eastern Canadian markets, is considerably greater than that found in the NEB's February Report (10 trillion cubic feet (TCF) now versus 3.8 TCF in February). Taking account of the capacity of fields to deliver gas from established reserves, the government has approved, and the Board will be issuing export licences for, new volumes of gas totalling about 3.8 TCF between now and 1987. Even at today's export price the total value of these exports is about \$15.5 billion. Between now and 1987, prices will almost certainly rise and the total value of sales could be much higher.

While the overall energy situation, and that for natural gas in particular, is promising, it is evident that Canada has a serious oil problem. As Table 1 shows, in 1978 the trade deficit on oil alone was close to \$1.5 billion. Conventional reserves of oil have been generally declining since the early 1970s and at current levels of production their life expectancy is now ten years. Although the longer-term prospects for tar sands and frontier oil are encouraging, in the absence of large and unexpected discoveries in the western sedimentary basin, domestic oil production is projected to decline throughout the 1980s.

In its most recent oil Supply/Demand Report (September, 1978), the National Energy Board forecast that Canada's dependence on imported oil would increase significantly. In 1978, net imports (excluding liquid petroleum gases) averaged about 345 thousand barrels per day (Mb/d). As shown in Table 2, the NEB forecast net oil imports to grow dramatically, to 733 Mb/d in 1985; 803 Mb/d in 1990; and 887 Mb/d in 1995.

Table 2

NEB Oil Supply/Demand Projections

	1978	1985	1990	1995
	(Mb/d)			
Demand	1775	2022	2134	2279
Supply	1430	1289	1331	1392
Net Imports	345 ⁽¹⁾	733	803	887

⁽¹⁾ Actual (includes stock drawdown of about 74 Mb/d).

The Problem

Events of the past year have significantly altered the international framework within which Canada must make its energy policy decisions, and have underlined the fragile nature of the international oil market. Prior to the Iranian revolution, the world oil market was soft and real prices were being eroded as exporters offered discounts to maintain their market share.

The revolution in Iran changed all that. The resulting cut in supplies tightened the world market considerably and the Organization of Petroleum Exporting Countries (OPEC) was able to accelerate price increases in 1979 well beyond those planned. The present Montreal price of offshore crude now averages about \$25.70 per barrel, up from \$16.50 one year ago. The price of domestic crude is now some \$10 per barrel lower than the international price.

In response to this situation, member countries of the International Energy Agency (IEA) agreed to reduce their demand for oil on the world market by about 5 per cent of IEA consumption by the fourth quarter of 1979. The Prime Minister, at the June Tokyo summit conference, reaffirmed Canada's pledge to reduce net oil imports this year and to lower Canada's average rate of growth in oil consumption after 1980 to 1 per cent per year (previously forecast by the NEB at about 1.7 per cent).

Following the 1973-74 OPEC increases, the previous federal government adopted a one-price oil policy for Canada and agreed that the domestic price of oil would move towards the world level in stages. However, the recent OPEC increases have significantly widened the gap between domestic and world prices. Under the current policy of raising domestic prices by \$1 per barrel every six months, and even assuming no real increase in OPEC prices, Canadian oil prices would not reach world levels before 1990, if ever.

With NEB forecasts for rising net imports over the foreseeable future, our prospects in the short term are especially troublesome and demonstrate the folly of depending on increased imports of foreign oil. Domestic oil production is now at full capacity, and exports of conventional, light crude oil to the United States have been almost phased out, except for the volume sold to the American Midwest in exchange for like quantities delivered to Eastern Canada. Stocks of petroleum products are below desired levels and consumption is rising rapidly. Indeed, the demand for oil products was 3.4 per cent higher in the January-September period of 1979 than in the same period in 1978. Gasoline consumption alone has jumped 4.3 per cent; by contrast, it has fallen 4 per cent in the United States. In short, the supply/demand outlook for this winter, while manageable, is tight. Any unforeseen circumstance such as a major disruption in international supplies, the breakdown of a refinery, or unusually cold weather, could create real difficulties, particularly in Eastern Canada.

The Budget and the Energy Package

It was against this background of an unacceptable supply/demand outlook and a growing dependence on imported oil that the federal government conducted a major review of Canadian energy policy in consultation with the provinces and industry. At last month's First Ministers' Conference, the federal government outlined the proposed elements of a national energy strategy. Although a final agreement on all the components of an energy package has not yet been reached with

the provinces, two important initiatives are being announced in the budget, namely an increase in excise taxes on transportation fuels and a new energy tax on petroleum revenues.

Pricing

Central to the package is agreement on oil and gas pricing. For the purpose of the budget, the following pricing regime has been assumed. Its ultimate adoption would be conditional upon the conclusion of an acceptable energy package, including the imposition of a workable energy tax.

Oil. The wellhead price of oil would increase in 1980 by \$1 per barrel on January 1, \$2 on July 1, and \$1 on October 1. In subsequent years, from 1981 to January 1, 1984 inclusive, the price will increase by \$2.25 per barrel on January 1 and on July 1. The amount of these price increases would be reviewed on January 1, 1983, so that if the then prevailing price of domestic crude delivered to Toronto (including the increase scheduled on that date) is less than 75 per cent of the lower of the "Chicago price" or the "international price", the amount of the difference would be added to the price increase for January 1, 1983. A further review would be made on January 1, 1984, so that if the then prevailing price of domestic crude delivered to Toronto (including the \$2.25 increase scheduled then) is less than 85 per cent of the lower of the Chicago price or the international price, the amount of the difference would be added to the price increase for January 1, 1984.

All increases in the domestic price of oil would be subject to the condition that the average delivered price in Toronto would not exceed 85 per cent of the lower of the Chicago price or the international price.

In addition, a federal-provincial-industry study would be undertaken to determine whether new incentives for enhanced recovery and tight gas production, or for all new oil and gas, would be administratively feasible and contribute in a major way to supplies. International prices are already available to synthetic oil from tar sands and upgraded heavy oil.

Natural Gas. The term of the present natural gas pricing agreement would be extended to February 1, 1984, so as to maintain the present 85-per-cent relationship between gas price increases and oil price increases, based on energy content. This means that for every oil price increase of \$1 per barrel the Toronto city gate price of natural gas will increase by 15 cents per thousand cubic feet (MCF). To encourage new gas sales in the domestic market, an incentive price on incremental volumes, equal to 65 per cent of British Thermal Unit (BTU) parity, would be offered to gas distributors and the western tariff zone would be extended to Quebec City.

Excise Taxes

While the proposed price increases would stimulate energy conservation, their full impact would not be felt for some time.

To provide an immediate incentive to conservation, the federal excise tax on gasoline and aviation gasoline for personal use is extended to all gasoline, diesel, aviation and marine fuel used in Canada and the rate of the tax is increased from 7 cents to 25 cents per gallon, effective December 12, 1979.

A New Energy Tax

It is the intention of the federal government to impose a new energy tax which would capture roughly one-half of the returns accruing from annual price increases in excess of \$2 per barrel per year on oil and 30 cents per MCF per year on gas. All the revenues from this tax would be used for energy-related initiatives including equity contributions to a proposed Canadian Energy Bank. The technical details of this tax remain to be worked out.

Other Elements of an Energy Package

A number of other important elements in a national energy package are being developed by the Department of Energy, Mines and Resources and further information about them will be provided in a document to be released later this week. These will include:

Canadian Energy Bank. A joint federal-provincial bank would be established to fund projects in support of Canada's energy objectives in a manner fostering increased private participation in the energy sector. The bank would be fundamentally commercial in nature, and would increase the ability and incentives for Canadians to participate more actively in future projects to promote energy self-sufficiency. It could fund projects such as the expansion of the gas distribution system beyond Quebec City, construction of a heavy oil upgrading plant, exploration by smaller independent Canadian companies, and joint federal-provincial development of maritime electrical generating capacity.

The bank would be funded for an initial four-year period by federal equity contributions equal to 10 per cent of revenues from the new energy tax in the first year, rising by 5 per cent per year to a maximum of 25 per cent of such revenues by 1983. Provinces would be asked to contribute equity and loan funds to the bank. The estimated amount of the federal equity contribution would be:

	1980-81	1981-82	1982-83	1983-84
	(\$ millions)			
Federal Contribution to Canadian Energy Bank	42	246	530	908

Conservation Initiatives. The federal government is contemplating a number of programs designed to encourage Canadians to conserve energy. For example, subject to satisfactory arrangements to ensure effectiveness and equity, the government would transfer the Canadian Home Insulation Program (CHIP) to provincial jurisdiction and provide the funds necessary for an enhanced effort. In addition, the government is considering the development of an industrial conservation assistance program in the Atlantic region and a program to increase the efficiency of existing oil furnaces.

Oil Substitution. The federal government would be prepared to support the conversion to coal or a coal-oil mixture in the generation of electricity in the Atlantic region. In addition, the federal government, along with the provinces, would initiate a program of rapid conversion to natural gas of oil-fired facilities, especially those owned by the governments and large private industrial firms.

Canadianization Measures. A number of options are being considered to enhance Canadian ownership of the petroleum industry with particular reference to new energy sources including non-conventional oils and frontier resources.

Implications

The principal goal of the new energy strategy is oil self-sufficiency by 1990. The price and tax measures outlined in the budget were designed with that in mind. It is estimated that by 1985, they will result in import savings of about 100 million barrels a year, or about \$2.5 billion at today's prices. Taken together with the initiatives which the Department of Energy, Mines and Resources will be outlining shortly, our forecast of net oil imports should be reduced to a level consistent with the government's goal of self-sufficiency in 1990.

It is clear that, in the absence of decisive new measures, Canada would become increasingly exposed to the vagaries of the international oil market. This could have drastic consequences. Quite apart from the burden our continued heavy reliance on foreign oil would have for the balance of payments, the possibility of shortages, induced by supply disruptions, would have a seriously depressing effect on economic activity.

The government is not, however, unmindful of the economic impact of higher prices. For this reason, the government's approach provides for:

- staged crude oil price increases to give Canadians time to make adjustments;
- a long-term indication of how prices would increase, thereby setting a clear framework within which Canadians can plan;
- a ceiling on domestic prices equal to the lower of 85 per cent of the Chicago or international price, to protect the competitive position of Canadian industry;

- a refundable energy tax credit, structured to shelter low-income Canadians, i.e. those least able to bear the burden of higher prices; and
- assistance to the Atlantic region, which relies heavily on oil for the production of electricity: federal grants would be available to support long-term adjustments away from oil, and direct subsidies provided to ease the burden in the short term.

Sales and Excise Taxes on Transportation Fuels

To promote energy conservation, the excise tax of 1.5 cents per litre (7 cents per gallon) on gasoline and aviation gasoline for personal use is extended to all gasoline, diesel, aviation, and marine fuel used in Canada, and the rate is increased to 5.5 cents per litre (25 cents per gallon). The increase for personal users of gasoline will thus be 4 cents per litre, or about 18 cents per gallon.

Commercial aviation, trucking, railways and shipping, inter-city buses, provinces, municipalities, and certain other groups which have been exempt will start paying the tax at the full rate.

A refund of 2.2 cents per litre (10 cents per gallon) will be provided on gasoline and diesel fuel purchased by a farmer for on-farm use in farm machinery, by a fisherman for use in boats for commercial fishing, and by a municipality for public transit buses.

The increase in the excise tax to 5.5 cents per litre and its extension to commercial users and to diesel fuel is expected to yield about \$2.5 billion a year in additional federal government revenues.

The current exemption for fuels for domestic heating remains unchanged.

Canadian prices of transportation fuels are generally lower than those in other major Western industrial countries including the United States. For example, retail prices of gasoline in Montreal, including the current 1.5-cents-per-litre excise tax (7 cents per gallon), were some 8 cents per litre (37 cents per gallon) lower than in New York State in September. Retail prices in the United Kingdom are 2½ times higher than in Canada. In countries such as West Germany, France and Italy the price is three to four times higher than in Canada. Canadian retail prices in September for diesel fuel were lower than in the U.S. by 6 to 7 cents per litre (27 to 32 cents per gallon). Aviation fuels also generally cost less in Canada.

Direct taxes on gasoline in Canada are also lower than in other Western industrial countries. These levies in the United Kingdom are 28 cents per litre, in Germany 29 cents, in France 50 cents, and in Italy 58 cents. The comparable burden in Canada is 7 cents, in Montreal.

In spite of this tax increase and the proposed increases in crude oil prices, the retail prices of transportation fuels are expected to remain

below those in the United States. Table 1 forecasts retail prices of gasoline in the two countries, including anticipated increases in crude oil prices in both countries. Even after the proposed tax increases, Canadian prices will still be well below those in United States. This is even more significant when it is realized that, from 1973 to 1978, Canadian retail prices averaged some 9 per cent higher than in the U.S.

Table 1

Forecast Retail Prices of Motor Gasoline in Canada and the United States Including the Tax Increases Proposed in the Budget⁽¹⁾

		Montreal		New York State		Difference	
		cents per litre	dollars per gal.	cents per litre	dollars per gal.	cents per litre	dollars per gal.
1980	January	28.2	1.28	32.5	1.48	4.3	0.20
	July	30.6	1.39	33.7	1.53	3.1	0.14
1981	January	32.4	1.47	34.8	1.58	2.4	0.11
	July	34.1	1.55	36.7	1.67	2.6	0.12
1982	January	35.9	1.63	38.7	1.76	2.8	0.13
	July	37.7	1.71	40.0	1.82	2.3	0.11
1983	January	39.4	1.79	40.9	1.86	1.5	0.07
	July	41.0	1.86	42.5	1.93	1.5	0.07

⁽¹⁾ Product prices in both countries reflect increases in costs of crude oil only. Canadian prices include the proposed excise tax of 5.5 cents per litre (25 cents per gallon). The timing of price increases does not reflect the two-month lag in Canada between crude price increases and increases in refinery prices.

The tax will have an important immediate effect on conservation. This effect will increase significantly over time as Canadians adjust, for example, by moving to smaller cars and to public transit. In the first year, the reduction in total oil demand could amount to almost 3 per cent or 12 million barrels. At current prices such savings would reduce the oil import bill by \$300 million. By 1983 the energy savings would almost double.

The new tax of 5.5 cents per litre (25 cents per gallon) will also apply to fuels which are exported or used in ships' stores, unless the oil export charge has been levied on the fuel. In the case of fuels which have been imported or refined from imported crude oil, and which are subsequently exported or sold as ships' stores, the tax will apply unless the import compensation payments are recovered.

The budget also extends the excise tax, and the federal sales tax of 9 per cent, to heating and lighting fuels that are acquired exempt of tax but are subsequently diverted to taxable uses.

Concurrent with the above changes, the regular federal sales tax on gasoline and diesel fuel, which is now imposed as a specific tax (for

example, 1.1 cents per litre (5 cents per gallon) on regular gasoline), will be converted to an ad valorem tax of 9 per cent on the sale price to retailers. This will not have any major immediate impact on prices as the specific rates are only slightly below 9 per cent of the refineries' current sale price. The conversion may lead to an immediate increase in tax of one-tenth to two-tenths of a cent per litre.

Price increases for these products in recent years have resulted in a decline in the effective rate of tax. The proposed change to an ad valorem levy will ensure that the tax is proportional to the sale price in future, as is the case for other goods.

Refundable Energy Tax Credit

A refundable energy tax credit will be introduced to cushion the impact of higher energy prices on lower- and middle-income families. The credit will reduce federal revenues by \$1 billion a year, when it is fully phased in. It will not affect provincial income taxes.

The energy tax credit will provide up to \$80 for each adult and \$30 for each child under age 18. The credits will be refundable so that families who pay little or no federal tax will receive full credit benefits.

The credits for each family will be reduced by 5 per cent of family income in excess of the threshold that currently applies for determining child tax credit benefits. For 1980 the threshold will be \$21,380. Higher-income families will therefore receive a smaller energy credit. The attached table shows the amount of benefits claimable by families of various sizes at various income levels. A family with two children with income below the threshold will receive full benefits of \$220. The benefits are reduced as the family's income rises above this threshold and for 1980 no credit is payable if the family's income exceeds \$25,780.

Since the proposed price increases for crude oil and natural gas will only take effect after July 1, 1980, the credit will be phased in over two years. Individuals will claim half benefits for 1980 and full credits for 1981 and subsequent years. The payment of credits will begin in the spring of 1981 when taxpayers file their income tax returns for the 1980 taxation year.

The income threshold below which full credits apply will be indexed to the Consumer Price Index. The energy credits themselves will not be indexed.

All persons aged 18 or over at the end of the year will be eligible for the adult credit of \$80. Persons under age 18 will be eligible for the \$30 credit. In determining benefits, taxpayers will aggregate their own credits and those of their spouses and any dependants for whom they or their spouses are claiming a tax exemption. If the combined net income of the taxpayer and his or her spouse exceeds the threshold, the credits will then be reduced by 5 per cent of that excess amount.

The definition of income used in this calculation will be the same as that used to determine child tax credit benefits. The total credit payable to the family may be allocated between spouses at their discretion.

To be eligible for full benefits, persons must be resident in Canada. Individuals who are separated or divorced during the year will calculate benefits only in relation to their own income for the year, and not that of their separated or divorced spouses. Credits will not be payable in respect of persons confined to prisons or other prescribed institutions.

**Energy Credit Benefits Claimable By Families
of Various Sizes at Various Income Levels**

Family Net Income	Single Person	Married Couple	Married Couple			
			One Child	Two Children	Three Children	Four Children
(dollars)						
Under						
21,380	80	160	190	220	250	280
22,000	49	129	159	189	219	249
23,000	—	79	109	139	169	199
24,000	—	29	59	89	119	149
25,000	—	—	9	39	69	99
26,000	—	—	—	—	19	49
27,000	—	—	—	—	—	—

Note: The benefits shown represent full benefits after the phase-in, calculated using the thresholds for 1980. Actual benefits in respect of 1980 will be one-half of the amounts shown.

Energy conservation equipment

Important changes are proposed to the special two-year fast write-off for energy conservation equipment to encourage and assist companies to install such equipment.

First, this special capital cost allowance provision, which is due to expire December 31, 1979, will be extended a further five years to cover acquisitions of qualifying equipment before 1985.

Second, the types of assets qualifying for the write-off will be expanded to include certain district heating systems, solar heating systems on new buildings, small-scale hydro-electric projects of 15 megawatts or less, and heat recovery systems, including heat exchange material and equipment and auxiliary components which are used to conserve energy. All of these items will qualify for the special two-year write-off where the cost is incurred after December 11, 1979, and before 1985.

As previously, the eligibility of such equipment for the fast write-off provision will have to be certified by the Minister of Industry, Trade and Commerce.

Corporate Surtax

In order to help meet the fiscal targets set out in the budget, a temporary 5-per-cent corporate surtax will be imposed from December 12, 1979, to the end of 1981. The surtax is necessary in the short term to restore a sound fiscal position.

The surtax will apply broadly to the federal Part I tax payable by corporations. It will apply to tax otherwise payable before the deduction of the tax credits for investment, employment, foreign taxes and political contributions. It will be calculated after a deduction in respect of income earned in the provinces and other jurisdictions of 10 per cent of taxable income.

In keeping with the temporary nature of the measure, a sunset clause has been added so that it will be in effect only until December 31, 1981.

The surtax is expected to reduce the federal budgetary deficit by about \$370 million in the fiscal year 1980-81. The surtax will not affect provincial revenues.

Major Business Incentives

Small Business Development Bonds

This important temporary tax measure will reduce the interest costs of qualifying small business corporations by enabling them to obtain after-tax financing from banks and other corporations. Interest payments on up to \$500,000 of debt issued after December 11, 1979, and before 1981 by such corporations will be treated for tax purposes as dividends. They will thus not be taxable to the lender, nor deductible to the small business.

Since lenders will incur no tax liability for receipts from eligible debt obligations, they will be able to correspondingly reduce the rate of interest charged. For example, a bank or other financial institution that would otherwise pay income tax of about 50 per cent on interest income should be able to reduce the rate of interest charged on the qualifying debt by about one-half. Both the borrower and the lender must jointly elect that the special tax treatment is to apply.

To qualify, the borrower must be a Canadian-controlled private corporation eligible for the low tax rate for small business. Substantially all of its assets must be used in an active business in Canada.

This measure is subject to a sunset provision. To qualify, debt instruments must be issued before the end of 1980. The maximum principal amount of a qualifying debt will be limited to \$500,000 per corporation and the term to maturity must be between one and five years. Rules will provide that a corporation can have only one qualifying loan at a time, and that only one member in any group of associated corporations can qualify. Special rules will ensure that this plan will be available to only one member in any group of associated corporations.

Depending on the degree of participation of small businesses, the federal revenue cost of the measure could be some \$70 million a year.

Canadian Common Stock Investment Plan

A new Canadian common stock investment plan will allow an individual to defer capital gains tax on listed common shares of taxable Canadian corporations. The plan recognizes the importance of equity investment by Canadians. It will encourage individuals to invest more of their savings in common stock. This will aid corporations to raise new capital and will promote increased ownership by Canadians.

The plan will have the following features:

- individuals resident in Canada can make annual contributions of up to \$20,000 to the plan in 1980 and \$10,000 per year thereafter. Outstanding, accumulated capital contributions in an individual's plan at any point in time cannot exceed \$100,000;
- each individual may have only one plan at a time;
- annual contributions will not be deductible from income for tax purposes, nor will they be taxable when they are withdrawn from the plan;
- funds in the plan will be required to be invested in common shares, rights and warrants to acquire common shares, or preferred shares convertible into common shares of taxable Canadian companies listed on Canadian stock exchanges. To provide flexibility in portfolio management, the plan may also invest in short-term deposits or other short-term debt instruments;
- taxpayers may reinvest any capital gains realized in the plan without any immediate tax consequences. These gains, net of any losses, will be taxable only as funds are taken out of the plan. Any dividend or interest income earned on the investments in the plan will be distributed to the individual and will be included in his or her income for tax purposes each year. The dividend tax credit will thus be available in respect of dividends earned through the plan. Dividend and interest income will also be eligible for the \$1,000 investment income deduction;
- individuals may also withdraw funds accumulated in the plan at any time without causing the plan to be terminated. Any reinvestment of the funds into the plan will, however, be subject to the annual contribution limit of \$10,000;
- any amounts received by the individual from the plan, in excess of the dividend and interest income distributions, will be considered to have first been out of accumulated capital gains, one-half of which will be included in his income for tax purposes. To the extent that withdrawals exceed investment income and net capital gains, and are thus withdrawals of accumulated contributions, they will not be taxed;
- capital losses in excess of capital gains in the plan can only be realized through a termination of the plan. Upon termination, one-half of the proceeds in excess of the outstanding accumulated amount of contributions will be included in the individual's income as a capital gain. If the proceeds fall short of the outstanding accumulated amount of contributions, the difference will be treated as a capital loss, one-half of which will be deductible from income subject to other applicable provisions of the Income Tax Act; and,
- unlike the retirement savings plans, there will be no requirement that the plan be matured at a certain age of the individual.

Rules will be provided for termination of the plan on the death of a taxpayer and in other special circumstances.

In addition to trust companies, investment dealers and members of Canadian stock exchanges will also be able to administer these plans so that their specialized services will be available to plan participants.

RRSP Investment In Shares

The budget proposes tax changes to promote common stock investments by Registered Retirement Savings Plans (RRSPs).

To encourage Canadians to invest in equities, a number of tax measures are currently provided. They include the tax credit for dividends from taxable Canadian corporations, a deduction for up to \$1,000 of taxable capital gains and dividends (and interest) on Canadian shares, and the one-half taxation of capital gains. However, the benefit of these tax measures is lost when the Canadian equities are bought through an RRSP. This occurs because all amounts received out of an RRSP (including accumulated capital gains and dividends) are currently taxed at full rates as ordinary income.

To further encourage Canadians to make common stock investments, the budget proposes to create a "capital component" within a trust governed by an RRSP. It will consist of one-half of net capital gains accruing after December 31, 1979, and one-half of dividends received after that date by the RRSP from listed common shares of taxable Canadian corporations. These benefits will only be available on maturity of a plan, and not on deregistration of the plan before retirement. When the RRSP matures, the "capital component" of the retirement income paid to an annuitant will be tax exempt. Effectively, as a result:

- capital gains on listed common stocks of public companies held within an RRSP will be taxed at one-half the normal rates; and
- dividends received in an RRSP on such stocks will be taxed at half rates, which approximates the tax treatment afforded by the present dividend tax credit.

This proposed tax treatment will ensure that common stock investments through an RRSP enjoy roughly the same favourable tax treatment as investments made directly by an individual. It will thus cause a greater proportion of RRSP funds to be channelled into purchases of common shares of listed Canadian public corporations.

Similar treatment will apply to investments in common stocks through a Registered Retirement Income Fund.

Provincial Venture Capital Corporations

Both Ontario and Quebec have established provincial venture capital corporations to provide investment capital for small businesses. The federal Income Tax Act will be amended to assist the successful working of such provincial plans.

The preferential low rate of income tax for small businesses is limited, by the Act, to Canadian-controlled private corporations. However, equity investments by a provincial venture capital corporation could result in a corporation losing its entitlement to the small business tax rate if the venture corporation happens to be a public corporation. Thus an amendment, effective with the 1979 taxation year, will stipulate that such a situation will not disqualify a company from the low tax rate.

A further amendment, retroactive to the 1977 taxation year, will exempt prescribed venture capital corporations from the special 25-per-cent Part IV tax that applies to dividends from shareholdings of 10 per cent or less in other companies. It will also stipulate that all dividends paid to a provincial venture capital corporation will be counted for the purpose of maintaining the payer corporation's qualification for the small business tax rate.

Where taxpayers have received assistance from a province for the purchase of shares of a prescribed provincial venture corporation, any losses on the disposition of the shares will be calculated net of the value of the provincial assistance. This change, effective with the 1979 taxation year, will ensure that capital loss claims are limited to actual losses.

Overseas Employment

To maintain Canadian competitiveness in overseas contracts, the budget proposes that employees of taxable Canadian corporations, working overseas in prescribed countries for more than six months, be partially exempt from Canadian tax. This measure will apply to persons working on construction, installation, agricultural or engineering projects, in resource exploration and development, or other prescribed activities in most developing countries and certain other countries. The exemption will be one-half of the employee's overseas remuneration to a maximum exemption of \$50,000 on an annual basis.

The question of when a person moving abroad becomes a non-resident is, in practice, a difficult matter of fact. Employees of Canadian companies who work overseas for a period of time on particular projects may be residents for purposes of Canadian taxation, and if so are liable to Canadian tax on their world-wide income. This can have undesirable effects on the ability of Canadian firms to compete in bidding for overseas contracts. Tax legislation applying to most of Canada's foreign competitors contains some degree of tax relief for their residents employed abroad. The partial exemption will permit Canadian employers to reduce costs while maintaining the after-tax value of remuneration to employees.

Regional Development

Investment In Atlantic Canada and The Gaspé Region

The budget proposes a new mechanism to deliver selective tax incentives for certain large projects in the Atlantic Provinces and the Gaspé region of Quebec. Such encouragement will promote a more balanced pattern of economic activity across Canada.

The incentives could take the form of accelerated capital cost allowances and/or tax credits, and will be granted on a selective project-by-project basis. A special package of incentives, unique to each individual project, will be developed as they arise. This will allow major projects of particular benefit to the region to receive an incentive package tailored to their needs. The design of the particular arrangements will be the responsibility of the Department of Regional Economic Expansion (DREE) in consultation with other federal departments and agencies and with the provinces.

DREE already administers such a program of grants and subsidies. It will now be possible to provide some of this assistance in the form of tax incentives which will be of particular benefit to profitable and successful ventures.

Incentives For Fishing Vessels In Atlantic Canada

The budget proposes a measure to encourage participation of the private sector in the modernization of the fishing fleet operating in Atlantic Canada.

The measure allows the existing accelerated three-year capital cost allowances on new Canadian-built fishing vessels leased to fishermen to be offset against other income.

The provision will encourage private individuals to finance the development of an upgraded fishing fleet. Effective immediately, individuals and companies will now be able to purchase vessels to lease to fishing operators and make use of the depreciation write-offs to shelter other income from tax. Without this proposed change, the amount of write-off claimable would be restricted to the amount of lease/rental income from the vessels. Under the plan, the fishing operators should benefit through lower lease/rental payments. In many cases, the operators will purchase the vessel at the termination of the lease.

The restriction of the measure to Canadian-built ships will further encourage the Canadian shipbuilding industry. This will benefit the general level of economic activity in the region.

It is not the purpose of the measure to encourage additions of more ships to the fleet. This is controlled by the issuance of permits by the Department of Fisheries and Oceans. Decisions on permits for new ships are based upon the level of fishing stocks and the availability of markets. The appropriate level of operations for the region is currently under review by the Department of Fisheries and Oceans.

Other Personal Tax Provisions

Employment of Spouses

Under existing tax law, a taxpayer who employs his or her spouse in an unincorporated business is not allowed to deduct as an expense any remuneration paid to the spouse. A similar rule applies where a partnership employs the spouse of one of the partners.

The budget proposes that, starting in 1980, these provisions be removed so that salary paid to spouses will be a deductible business expense. The amounts will be added to the taxable income of the spouse.

Besides lowering taxes on small unincorporated businesses, the measure recognizes the contribution spouses make to the business.

The federal revenue cost of this measure is an estimated \$150 million a year.

Capital Gains on Farmland

In recognition of the importance of proceeds from the sale of a farm in providing retirement income for farmers, the budget proposes that taxable capital gains of up to \$100,000 on the sale of farmland by bona fide farmers may be transferred tax-free to a Registered Retirement Savings Plan (RRSP). This will allow a deferral of tax on these gains. As only one-half of gains are now subject to tax, a farmer can thus realize up to \$200,000 of capital gains without immediate tax consequences. The measure also permits gains that have accumulated through the appreciation of farmland to be received after retirement in the same variety of ways that are now available under RRSPs. These include life annuities, specified term annuities and Registered Retirement Income Funds. Farmers of course can also contribute up to \$5,500 per annum to an RRSP from their earned income.

The option to transfer taxable capital gains to an RRSP will commence on December 12, 1979, and will be available once in a taxpayer's lifetime. Such a transfer will be available to both unincorporated and incorporated farms. In the case of unincorporated farms it will be available to bona fide farmers who have used the land in a farm business for at least 15 of the last 20 years prior to disposition.

Sales of shares in a farming corporation will also qualify if the assets of the corporation consist substantially of farmland, if the property has

been used in a farming business for 15 of the last 20 years and the shareholders have been bona fide farmers for that period of time.

Rules will be provided to apply the measure where farmland has been replaced, for example during a relocation, or where the farmer has conducted business in an unincorporated and incorporated farm over various periods of time.

Taxation and the Family

Support Payments

Currently, maintenance or support payments made to a "common-law spouse" or for children born out of marriage are not deductible in computing a taxpayer's income. To accommodate recent trends in provincial family law legislation, such payments made after December 11, 1979, pursuant to a court order, will now become deductible for tax purposes.

Attribution Rules

The Income Tax Act provides that any income earned on property that is transferred by a taxpayer to his or her spouse is attributed to, and taxed in the hands of, the transferor and is excluded from the income of the spouse. So also, any capital gain or loss that is realized on the transferred property is taxed as income of the transferor. The purpose of these rules is to restrict opportunities for income splitting.

These rules cause some difficulties for taxpayers who are legally separated. The budget proposes that the rules shall not apply from the time that a married couple separates pursuant to a judicial decree or written separation agreement.

Family Rollovers

For tax purposes, a transfer of capital property between a taxpayer and spouse is currently deemed to occur at the cost, rather than the fair market value, of the property. This defers the realization of capital gains on the transferred property. An amendment will give the taxpayer greater flexibility by allowing the taxpayer to elect the fair market value as the transfer price.

Transfer of Property to a Child

Certain provisions in the Act allow an individual to transfer property tax-free to his or her children. Effective with the 1979 taxation year, the definition of child in the Income Tax Act will include a stepchild.

Refundable Quebec Abatement

The existence of certain credits in the federal tax results in a number of Quebec taxpayers, especially those with low incomes, losing the benefits of the existing 16.5-per-cent Quebec abatement. An amendment will ensure that Quebec residents will receive the full benefit of this abatement which applies to basic federal tax for residents of that province.

This special abatement is provided in lieu of direct cost-sharing by the federal government under the federal-provincial fiscal arrangements. It serves to reduce the federal income tax on Quebec residents and enables the Quebec Government to levy its provincial income tax at rates higher than otherwise.

The amendment, effective with the 1980 taxation year, will provide for refunding to the taxpayer of any part of the abatement that cannot be applied to reduce federal tax payable.

Volunteer Firemen

The tax exemption for the allowances paid to volunteer firemen will be raised from \$300 to \$500, for the 1980 and subsequent taxation years. The total deduction from employment income of such taxpayers, including the existing general expense deduction of 3 per cent of wages or salaries, maximum \$500, can thus reach \$1,000.

Social Insurance Number Requirement

Effective December 12, 1979, failure to provide a Social Insurance Number when cashing interest coupons on bonds will no longer result in 25 per cent of the interest payment being withheld.

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Resource Taxation

Frontier Exploration Allowance

The special frontier exploration allowance, which is scheduled to terminate on March 31, 1980, will be extended on a reduced scale until the end of 1980. During the next year the government will examine alternative ways of encouraging exploration activities in the frontier regions and offshore.

The frontier exploration allowance provides a special depletion allowance of $66\frac{2}{3}$ per cent of exploratory drilling costs in excess of \$5 million on an oil or gas well. This rate will be reduced to $6\frac{2}{3}$ per cent for eligible exploration expenditures incurred from April 1, 1980, to December 31, 1980.

The new allowance, when combined with the immediate deduction of exploration expenditures and the earned depletion allowance of one-third of exploration costs, will allow for a total potential deduction of 140 per cent of expenditures in computing taxable income of taxpayers who have resource income against which they can claim the earned depletion allowance.

Taxpayers who do not now have any resource income will be entitled to an immediate deduction of $106\frac{2}{3}$ per cent of the eligible expenditure, with a $33\frac{1}{3}$ -per-cent earned depletion allowance which can be applied against any future resource income.

The current frontier allowance permits some high-income taxpayers to have immediate tax savings that exceed the cost of their investment. For example, as a result of the 200-per-cent deduction now available, a taxpayer subject to a combined federal and provincial marginal tax rate of 62 per cent receives tax benefits of \$124 for every \$100 invested in the frontier. Such a structure is not equitable and reduces the incentives to efficiency in exploration costs. The extended incentives proposed by the budget will avoid such undesirable effects. For example, a taxpayer with resource income subject to a 62-per-cent marginal tax rate who invests \$100 in frontier exploration would see his income tax reduced by about \$87, so the net cost to him would be about \$13. A taxpayer with a marginal tax rate of 70 per cent would face a net cost of about \$2 for every \$100 invested.

Deductibility of Costs of Canadian Resource Properties

The cost of acquiring Canadian oil and gas resource properties, including land bonus payments to the Crown, after December 11, 1979,

will be deductible at an annual rate of 10 per cent on a declining-balance basis rather than 30 per cent as currently provided. The measure will reduce upward pressures on prices of oil and gas properties. This will help the smaller independent companies, many of which do not have taxable income against which to apply the various fast write-offs.

These properties will be included in a separate cumulative account. Proceeds from the disposition of the properties will be credited to the account and, to the extent that the proceeds exceed the balance in the account, they will be included in income.

The deduction related to such properties will now serve to reduce the amount of "resource profits" for the purpose of determining the earned depletion allowance and the resource allowance. Any income from the disposition of the properties will continue to be included in income against which the depletion allowance can be claimed.

Resource Taxes and Exempt Institutions

During the past year a number of taxpayers have arranged with tax-exempt institutions, such as pension plans and charities, to artificially reduce their tax on income from the production of oil and gas. Income taxes are substantially reduced through arrangements whereby the tax-exempt institution would operate the well and pass back a large share of production to the taxpayer as a net royalty. As a result of these arrangements it is possible to avoid the effects of provisions in the Income Tax Act which disallow deduction of provincial resource royalties. Moreover, a substantial part of the income remained eligible for the 25-per-cent resource allowance which is provided in lieu of deductibility of provincial royalties. In order to discourage such arrangements, two amendments are proposed.

First, a new Part XII tax, to be added to the Act, will levy a special tax on persons exempt from regular corporate income tax. The tax will be 46 per cent of the disallowed provincial resource royalties and taxes in respect of oil and gas production and mining related to properties. In cases where the properties were owned by the tax-exempt entity on December 11, 1979, the tax will be applicable after December 31, 1980.

Second, royalties with respect to oil and gas production received from a tax-exempt entity will be excluded from income, subject to the resource allowance and earned depletion. A "grandfather" provision will give relief with respect to royalties received from a tax-exempt entity where the resource property was disposed of to the tax-exempt entity before December 11, 1979, and the taxpayer had not in any way been involved in the disposition.

Disposition of Resource Properties by Non-Residents

Many non-resident operators of Canadian resource properties can effectively avoid Canadian tax by selling all their operating interests in exchange for royalty interests. An amendment is being introduced which will ensure that the income from a Canadian resource business carried on in Canada is taxed at full corporate rates. The amendment provides that a non-resident person who ceases to carry on a resource business in Canada after December 11, 1979, in a taxation year will be deemed to have disposed, immediately before the end of that year, of any Canadian resource properties in which he has an interest at the end of that year at their fair market value. A related amendment ensures that income from Canadian resource properties, including royalties and proceeds from the disposition of such properties, will effectively be treated as Canadian business income. These changes affect only those non-residents who cease to carry on resource activities through a fixed place of business in Canada.

Social Assets in Mining

Expenditures on social assets such as housing and municipal facilities and services acquired in the development of a new mine now qualify for accelerated capital cost allowances and earned depletion. A change in the Income Tax Regulations will extend those incentives to situations where such assets are acquired after December 11, 1979, in the major expansion of an existing mine.

Other Resource Changes

Two significant changes affecting the mining and petroleum industries are being made by regulation. Deductibility will be allowed for annual rentals on mining properties paid to governments during the pre-production period. Capital cost allowance at 30 per cent per year will be allowed for development expenditures on underground petroleum or gas storage, and rental payments to a province for the use of property for this purpose will be deductible.

Other Business Provisions

Capital Gains Strips

Important amendments will be introduced to clarify and reinforce the intent of the anti-avoidance provision relating to artificial or undue reductions in capital gains.

Concerns have been expressed as to the legislative scope and intended application of this anti-avoidance provision. A number of plans have been developed whereby, as a preliminary step to certain sales of shares, a corporate vendor extracts what are in substance sale proceeds in the form of tax-free intercorporate dividends or deemed dividends to decrease the value — or increase the cost base — of the shares to the point where capital gains tax is avoided. These tax-free dividends frequently exceed the earnings of the corporation to be sold. Such excessive dividends are usually motivated only by the vendor's desire to reduce his exposure to capital gains tax.

As a general rule, the objective of the tax law is that on most arm's-length and on certain non-arm's-length intercorporate share sales, a capital gain should arise at least to the extent that the sale proceeds reflect the unrealized and untaxed appreciation since 1971 in the value of underlying assets. This objective will generally be achieved where tax-free dividends on shares are limited to post-1971 taxed retained earnings.

Rules will be introduced to clarify the intention of the law in this respect. These rules will ensure that where it can reasonably be considered that one of the main purposes of a tax-free intercorporate dividend was to reduce the proceeds on a disposition of a share, the capital gain otherwise determined will be adjusted to reflect the extent to which aggregate tax-free dividends have exceeded post-1971 taxed retained earnings.

Similar tax plans have developed where, through the use of specially tailored share consideration, tax-free dividends are generated in order to technically reduce taxable proceeds on the arm's-length intercorporate sale of inventories, depreciable assets and other properties. Although an unusual and tax-motivated structuring of share consideration is necessary to achieve this technical reduction in taxable proceeds, some have concluded that it is the intention of the tax law to permit a virtually endless deferral of tax for so long as a particular asset is maintained within the corporate sector — even though it may frequently change hands at full value in arm's-length transactions. To clarify the intent of the law, amendments will be introduced to ensure

that where such tax-free intercorporate dividends can reasonably be regarded as sale proceeds of property, they will be treated as such.

Specific rules will be introduced to ensure that these various changes will not affect transactions in the course of bona fide corporate reorganizations and certain so-called "butterfly" transactions.

Corporate Partnerships and the Small Business Tax Rate

The budget proposes measures that will eliminate an undue tax advantage for a business that is operated as a corporate partnership.

Currently, qualifying Canadian-controlled private corporations are entitled to a low federal tax rate of 15 per cent on up to \$150,000 of active business income each year. It is the government's intention that a single business should not receive this low tax rate on more than \$150,000 of its annual income. Under the present Act, however, if a business is organized as a partnership of non-associated corporations, *each* of the corporate partners is allowed the low tax rate on up to \$150,000 of his share of the partnership's business income. Thus, a business organized as a partnership of corporations can multiply the benefits of the low small business tax rate many times over.

In order to eliminate this unintended advantage, the budget proposes that the \$150,000 limit will apply to the total profits of a corporate partnership, and that a corporate partner's share of that benefit will be proportionate to his share of the partnership profits. This change will apply to taxation years commencing after December 11, 1979.

Unregistered Employee Benefit Plans

The Income Tax Act provides tax incentives to employers and employees to contribute to employee pension and deferred compensation plans. However, to be eligible for these tax incentives, contributions must be made to registered pension plans. These plans are subject to certain controls on the type of investments allowed and on the amount of contribution that can be made and deducted from income in any year. Recently, there have emerged unregistered plans which provide substantial tax advantages to participants while, at the same time, contravening all the limits and restrictions imposed on registered pension plans. These unregistered plans can be structured so as to allow an employer an unlimited current tax deduction and to permit his employees an unlimited deferral of tax on income.

While there is some justification for allowing employers' deductions for contributions to certain unregistered plans (for example, for pension plans operated for employees of foreign branches of a Canadian employer), unregistered plans generally involve a significant loss of tax revenue and are unfair to other taxpayers who comply with the strict rules for registered plans. Consequently, changes are proposed in this

budget to remove the unintended tax advantages arising out of certain unregistered employee benefit plans. Payments after December 11, 1979, by an employer to an unregistered plan will not be deductible until the time the amounts vest irrevocably in the employee. At that time they will be taxable income to the employee. Special provisions will be made to accommodate the needs of foreign branches of Canadian employers.

Prepaid Expenses

A change is proposed to deal with the timing of the deduction of certain advance payments made by taxpayers in calculating their business or property income. After December 11, 1979, expenditures made or incurred by a taxpayer for prepaid rent, interest, insurance and taxes, for services to be rendered in a subsequent taxation year, or for parts, supplies and similar inventories not used in the taxation year, will not be deductible until the year to which they relate. This change will more closely align the determination of business or property income for tax purposes with generally accepted financial reporting practice.

Term Preferred Shares

The budget of November 16, 1978, introduced provisions that ruled out a deduction for dividends received on "term preferred shares". The Notice of Ways and Means Motion which was introduced in Parliament on October 23, 1979, to carry forward the income tax proposals of the last budget, altered the definition of term preferred shares in limited circumstances. This budget will provide that the definition set out in the 1978 budget will apply in most cases for the period November 16, 1978, to October 23, 1979.

Other Relieving Measures

The budget proposals include a number of other important measures that provide relief from provisions of the Income Tax Act. They include:

Medical Deductions

Two costly pieces of equipment for the blind and disabled are being added to the list of medical expenses that are eligible for deduction from income for tax purposes.

One is the optical scanner — a device used by the blind to instantly translate print into a format similar to Braille which can be read by touch. The other is a power-operated lift designed solely for disabled persons to permit access to different levels of a building.

Bequests of Cultural Property

Where a deceased taxpayer bequeaths a cultural property to a designated public institution such as a museum or art gallery, any capital gain will be excluded from the calculation of his capital gains for tax purposes. A similar provision already applies to gifts made before death. The value of the gift in both cases also remains eligible for a deduction as a gift to the Crown.

Employee Aircraft

Starting with the 1980 taxation year, employees who are required to use their own aircraft to carry out their jobs may in certain circumstances claim capital cost allowance and interest charges on the aircraft. This provision, similar to an existing arrangement for automobiles, will be of particular help to employees in northern Canada.

Non-Resident Tax on Retirement Pensions

Non-resident pensioners receiving payments under a Registered Retirement Income Fund will be permitted to elect to have a reduced rate of tax withheld on such payments. This applies particularly to pensioners on modest incomes for whom the flat rate 25-per-cent withholding tax would be excessive. The change applies to the 1979 and succeeding taxation years.

Shareholder Loans

Under the present law, when a corporation makes a housing loan to the spouse of a shareholder-employee, the amount of the loan must be included in the spouse's income even though a similar loan to the shareholder himself would be excluded. This exclusion will now apply to both cases, starting with the 1979 taxation year.

Voluntary Disposition of Business Assets

A relieving amendment will ensure that, on moving the site of a business, no capital gain will arise provided the proceeds from the former business properties are reinvested in one or more replacement properties. This will be retroactive to April 1, 1977, when these rollover rules were first introduced. Previously, the relieving provision operated on an asset-by-asset basis which could result in a capital gain arising even though the total proceeds were used to acquire new properties.

Vacation Pay Trusts

Some employers and unions have set up trusts to administer funds set aside for vacation pay of employees. These trusts will be exempted, retroactive to 1972, from paying a 51-per-cent tax on their investment income while the funds remain in the trust.

Deductibility of Tax Appeal Costs

Costs of objecting to or appealing from assessments of Quebec income taxes, Ontario corporation taxes or foreign taxes after December 11, 1979, will be allowed as a deduction from income for federal tax purposes. Deductions are already allowed for costs of objecting to federal income tax. Costs of objecting to decisions under the Canada or Quebec Pension Plans are also being made deductible.

Winding-Up Rollovers

To facilitate corporate reorganizations, an amendment will expand the scope of the existing rollover on the winding-up of a corporation into its Canadian parent corporation. For winding-ups commencing after December 11, 1979, the requirement that the parent own all the shares of the subsidiary will be relaxed to a requirement that it own at least 90 per cent of each class of outstanding shares of the subsidiary.

Source Deductions

Deductions at source of income tax on wages and salaries can be adjusted to reflect the taxpayer's exemptions for dependants. However, deductions at source on other kinds of income, such as pension or annuity payments, are made as if the taxpayer were a single person. It is proposed that after 1979 taxpayers will be able to apply for an adjustment of these deductions to reflect their exemptions for dependants.

Other Measures

The Ways and Means Motion tabled with the budget contains a number of significant but technical amendments designed to ensure that taxpayers do not receive unwarranted benefits. Some of the more important measures proposed are as follows:

Transfer of Corporate Residence

Canadian corporations can avoid tax by taking steps to technically adopt residence in a jurisdiction outside Canada. Where such a transfer occurs after December 11, 1979, the corporation will be deemed to have disposed of all of its property at fair market value, thus ensuring an appropriate level of Canadian tax.

Transfers of Property to a Corporation

The provision allowing a taxpayer to make tax-free transfers of certain types of property to a Canadian corporation will be restricted, after December 11, 1979, to transfers to taxable Canadian corporations. This will avoid situations where, under the present Act, such transfers could

be made to tax-exempt corporations with the result that any tax liability which would otherwise arise on the eventual disposition of the property could be avoided.

Tax-Loss Trading

Some companies can circumvent the rules against tax-loss trading — the acquisition of corporations with business losses by profitable companies to reduce their taxable income. Normally, any unused business losses of a corporation are extinguished if control of the firm changes hands and its business is discontinued. An exception to this rule is made in the case of related corporations, to facilitate corporate reorganizations. An amendment will be made to ensure that unrelated corporations cannot take advantage of this exception by establishing a relationship through an option to acquire control of the loss company. The proposed amendment will be effective for options acquired after December 11, 1979.

Inventory Allowance

Starting in 1977, taxpayers carrying on a business are allowed to deduct from income 3 per cent of the cost of their inventory at the start of the taxation year. This measure recognizes the effect of inflation on business profits. However, it is possible for taxpayers to increase this deduction unduly, for example, by transferring substantial inventories between corporations in non-arm's-length transactions. The inventory allowance may be appropriately reduced in these circumstances and in certain other circumstances where inventories are disposed of outside the normal course of business.

Buy-Back Agreements of Exempt Persons

A special tax is being proposed to discourage a serious tax avoidance scheme involving buy-back arrangements of Canadian equities between tax-exempt institutions and taxable corporations.

Lease Option Acquisitions

Agreements for the lease of property often include an option to acquire the property at the end of the lease. It is often difficult to determine whether the rental payments should be deductible as an expense or treated as a payment toward the purchase price. This distinction has tax implications when the acquired property is subsequently sold. An amendment is proposed to stop unintended tax benefits accruing to a lessee on disposition of the property.

Other Sales Tax, Excise Tax and Tariff Measures

Alcohol and Tobacco Products

The budget proposes various increases and decreases in the excise taxes and duties on spirits, wine, and beer to raise revenues and to rationalize the tax structure. It also proposes a 10-per-cent across-the-board increase of the excise taxes and duties on tobacco products. These changes take effect immediately. The revenue gain in the first year will be \$130 million for alcohol products and \$85 million for tobacco products.

Alcohol

Taxes on alcoholic beverages are imposed as specific amounts per unit of the product. The last increases in the levies on spirits were in November, 1974, and on beer and wine in 1967. In fact, for many products the federal excise taxes and duties are only marginally higher than they were 25 years ago. For example, the tax rate on beer, at 42 cents per gallon, is only 4 cents a gallon higher than it was in 1954.

Because these taxes have not been increased for some time, their real value has fallen significantly as prices of the products have risen.

Also, the current tax regime imposes taxes on various products that result in widely differing levies per unit of absolute alcohol contained in the beverage. For example:

- fortified wines, which normally have up to half the alcohol content of spirits, bear a tax per gallon of absolute alcohol that is less than a tenth of that levied on spirits;
- the tax on sparkling wines per unit of alcohol is over four times as high as the tax on regular wines of similar alcoholic content;
- malt beer, which has very low alcoholic content, is taxed at the same rate as light beer; and
- brandy, which generally has the same alcoholic content as regular spirits, bears a lower tax rate.

The budget moves to rationalize the tax structure by redressing such anomalies.

Table 1 shows the current and proposed rate of tax on various products and the tax changes per bottle. In summary:

- the tax on spirits, other than brandy, rises by 90 cents per proof gallon or 11 cents for a 25-ounce bottle;
- the tax differential favouring brandy is eliminated;
- the tax on regular beer rises from 42 cents to 54 cents per gallon, or by 1 cent per bottle;
- the tax on light beer rises proportionately from 21 cents to 27 cents per gallon, or one-half cent per bottle;
- the tax on malt beer is lowered to 5 cents per gallon to reflect its low alcohol content;
- the tax on table wines with alcohol content not exceeding 7 per cent rises from 27.5 to 60 cents per gallon;
- the increase on table wines with over 7 per cent but not exceeding 14 per cent alcohol content is from 55 cents to \$1.25 per gallon;
- the increase on table wines with alcohol content of more than 14 per cent is from 55 cents to \$3.00 per gallon; and
- the special rate of \$2.55 per gallon on sparkling wines is eliminated. These wines will now be taxed at the same rates as table wines, depending on alcohol content.

The budget also consolidates the excise tax on domestic and imported wines, which was formerly imposed under two statutes (the Excise Tax Act and the Customs Tariff), into one levy under the Excise Tax Act. The excise tax on wines will be included in the price on which the federal sales tax is calculated as it is for other alcoholic beverages.

Tobacco

Rates of excise tax and duty on tobacco products have not been raised since November, 1974. As these levies are imposed as a specific amount per unit, the real tax burden has fallen significantly as prices of the products have risen.

The taxes on tobacco products will increase by 10 per cent of the total now applied to each product. Table 2 shows the current total tax, the proposed new tax rates, and the amount of the tax increase per package.

Table 1

Current and Proposed Excise Taxes on Alcoholic Products

Product	Current Tax Rate	Proposed Tax Rate	Tax Change per Bottle ⁽¹⁾
Spirits other than brandy	\$16.25/proof gal.	\$17.15/proof gal.	+11¢
Brandy	\$14.25/proof gal.	\$17.15/proof gal.	+35.5¢
Regular beer, over 2.5% alcohol	0.42/gal.	0.54/gal.	+1¢
Light beer, over 1.2% but not exceeding 2.5% alcohol	0.21/gal.	0.27/gal.	+0.5¢
Beer, not exceeding 1.2% alcohol	0.21/gal.	0.05/gal.	-1.2¢
Wines, not exceeding 7% alcohol	0.275/gal.	0.60/gal.	+6.2¢
Wines, over 7% but not exceeding 14% alcohol	0.55/gal.	1.25/gal.	+13.3¢
Wines, over 14% alcohol	0.55/gal.	3.00/gal.	+43.9¢
Sparkling wines	2.55/gal.	same as for other wines	

⁽¹⁾ The tax change per bottle recognizes that the excise taxes are a part of the base on which the federal sales tax is levied. These changes were calculated assuming (i) a 25 oz. bottle for spirits, containing 40 per cent alcohol by volume, (ii) a 25 oz. bottle for wines, and (iii) a 12 oz. bottle for beer.

Table 2

Current and Proposed Excise Taxes and Duties on Tobacco Products

Product	Current Rates	Proposed Rates	Increases ⁽¹⁾
Cigarettes, weighing not more than 3 lbs. per thousand	\$11.00/thousand	\$12.10/thousand	2.5¢ per pack of 20
Cigarettes, weighing more than 3 lbs. per thousand	\$12.00/thousand	\$13.20/thousand	2.7¢ per pack of 20
Cigars	\$2.00/thousand	\$2.20/thousand	0.1¢ per pack of 5
Manufactured tobacco	\$1.40/lb.	\$1.54/lb.	15.7¢ per lb.
Raw leaf tobacco	\$0.10/lb.	\$0.11/lb.	1¢ per lb.

⁽¹⁾ Increase takes into account the fact that the excise duty forms a part of the base for the federal sales tax.

Containers and Coverings

A special exemption from the federal sales tax applies to containers purchased by manufacturers of tax-exempt goods. Its purpose is to ensure that packaging materials receive the same treatment as other raw materials used in the manufacture of tax-exempt goods.

However, an anomaly in the law also allows wholesalers and retailers of tax-exempt goods to buy containers and coverings exempt from tax. The same materials bought by wholesalers and retailers for packaging taxable goods are fully taxable. The budget proposes to correct this anomaly by confining the benefits of the exemption to manufacturers. This change will affect mainly clothing stores, grocery stores, and take-out food and drink outlets. They will now be required to buy their containers and coverings on a tax-paid basis, effective immediately.

The budget also changes the exemption for reusable containers by adding egg cartons to the exempt list and deleting plastic bags for milk or cream. Plastic bags for milk will continue to enjoy exemption when purchased by milk producers and processors as such persons are manufacturers or producers of tax-exempt goods.

Period of Excise Tax Relief For Certain Users of Aviation Gasoline

The budget of November 16, 1978, proposed to levy a 1.5-cents-per-litre (7-cents-per-gallon) excise tax on aviation gasoline, while providing an exemption by way of refund for gasoline purchases used solely for public air transportation of passengers, freight or mail, and for certain other air services. This proposal has not yet been enacted by Parliament and is included in the legislative amendments arising out of this budget. However, in view of the new budgetary proposal for a higher tax on all transportation fuels, the application of the tax of 1.5 cents per litre on aviation gasoline and its related exemptions will be limited to the period from November 17, 1978, to December 11, 1979.

The tax of 1.5 cents per litre paid during this period will be refunded to users who purchased aviation gasoline for public air transportation of passengers, freight, or mail; resource exploration and development; aerial spraying, seeding, and pest control; forestry and fish cultivation; aerial construction using helicopters; aerial fire control and fire-fighting; and map making and aircraft engine testing.

Persons who will be entitled to these refunds when the bill has been passed should contact their District Excise Tax Office, or write to:

Director, Excise Tax Interpretations
Revenue Canada, Customs & Excise
Ottawa, Ontario.
K1L 0L5

Cosmetics

A significant portion of goods marketed in Canada are subject to the 9-per-cent federal sales tax calculated on their sale price to retailers. But in the case of cosmetics, the industry has been able to arrange its affairs by inter-company agreements so that in many instances, the tax is being calculated on bare manufacturing costs and thus the substantial value added in the distribution and marketing process is not being taxed. Domestic manufacturers of cosmetics are also disadvantaged vis-à-vis importers of cosmetics because of this situation.

The Excise Tax Act already includes a special provision for the cosmetic industry to prevent an artificial reduction in value for tax purposes. As this provision has been ineffective, an amendment is now necessary to ensure that the industry pays its fair share of the tax.

The budget proposal will correct this situation by imposing the tax on both imported and Canadian-made cosmetics at the time when the goods are sold to retailers, calculated on the price charged at that trade level.

Experimental Production of Alcohol as a Fuel Substitute

The Excise Act currently imposes very stringent licensing requirements upon producers of alcohol. These include the provision of a \$200,000 bond to ensure that the requirements of the Act will be met. In order to facilitate experimental production of alcohol as a fuel substitute, the Minister of National Revenue will be empowered to issue a temporary licence to experimenters for a period not exceeding one year. The bond requirements for such a licence will be reduced to \$10,000.

Exempting Provisions for Aircraft and Transportation Equipment

Buses, large trucks, ships, aircraft, and railway rolling stock used for commercial transportation of freight and passengers are generally exempt from the 9-per-cent federal sales tax. The budget proposes several amendments to clarify and rationalize the scope of this exemption.

The exemption for transportation equipment will be expanded to include fifth-wheel dollies designed to convert semi-trailers and tractor trailers to full trailers for highway towing purposes. It will also be reworded to limit the relief available for equipment mounted on trucks and trailers to parts and equipment which are designed to facilitate the carriage and handling of freight.

The exemption for aircraft is revised to provide relief only for aircraft used exclusively for public air transportation of passengers, freight or mail, and in the provision of air services directly related to the

exploration and development of natural resources, aerial spraying, seeding and pest control, aerial construction, fire protection and control, and map making.

Aircraft used for flying training, aerial photography, parachute jumping, flying shows, and other recreational activities will no longer be exempt from the tax. This will put them on the same basis as other business and personal transportation equipment such as automobiles, snowmobiles, and sailing boats.

Personal and corporate aircraft are currently taxable and will continue to be so.

Photofinishing

Photofinishing is a manufacturing process. Nevertheless, the photofinishing industry has not been taxed in the past. The budget provisions would require photofinishers to be licensed and to account for federal sales tax at the rate of 9 per cent on their charges to their customers. As licensed manufacturers, photofinishers will now be able to acquire their materials, and developing and printing equipment, without payment of the tax. Until December 11, 1979, photofinishers purchased such goods tax-paid.

The tax would apply only to photofinishing of customer-supplied exposed films, negatives or slides. It would not apply to portrait photography or other similar services provided by photographers in their studios. Portrait photographers will be relieved by regulation of any obligation to pay the tax on their sales of photographs but will be required to pay tax on their purchases of materials and equipment. This treatment is similar to that currently accorded artists and craftsmen.

Customs Tariff

The budget contains only a few tariff amendments. Several are of a technical or housekeeping nature. The most substantive amendments are those affecting gifts sent from abroad and goods brought back to Canada by former residents after an absence of a year or more.

The limit on the value of gifts that can be sent from abroad or brought into Canada by non-residents duty- and tax-free has been increased from \$15 to \$25. The limit on the value of individual articles that can be imported free of duty and tax by returning residents is being increased from \$7,500 to \$10,000.

Other amendments will remove duties on certain nursery stock, Bible recordings, and certain bird-scaring devices and reduce the duty on farm storage tanks for animal waste.

The tariff reductions to be made as a result of agreements reached in the Multilateral Trade Negotiations will be covered by a separate Ways and Means Motion to be tabled in the House on December 12. The Motion will also provide for the withdrawal of tariff preferences from the United Kingdom, Ireland and South Africa.

Provisions from the Last Budget

Parliamentary passage has not yet been given to sales tax and excise tax provisions of the budget of November 16, 1978. All of these provisions, except those pertaining to the air transportation tax, will be included in the legislative amendments arising out of this budget.