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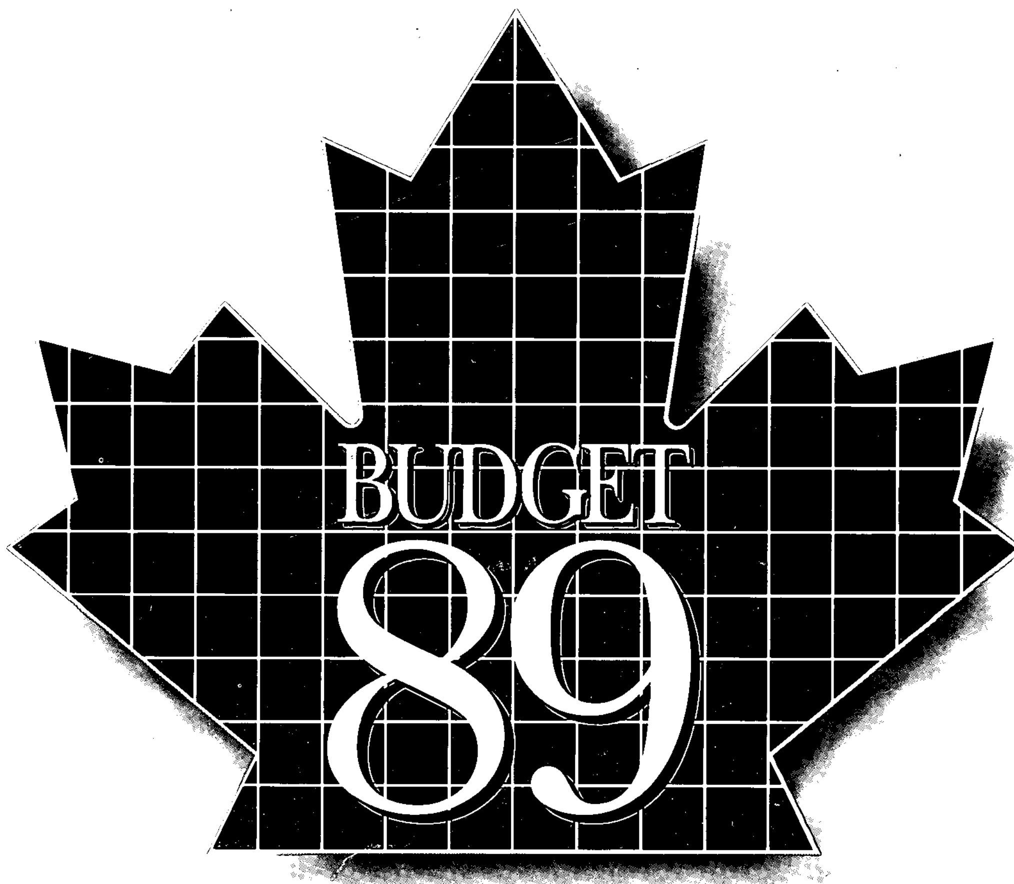
A29b
1989

Budget Papers

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

April 27, 1989



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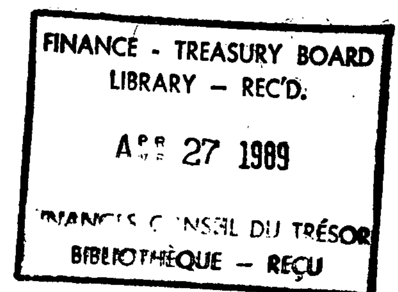

Department of Finance
Canada

Ministère des Finances
Canada

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A. The Expenditure Restraint Plan

The Structure of Program Spending

In fiscal year 1988-89, government expenditures amounted to $133 billion. Of this amount, $33 billion was in the form of interest payments on the public debt. Spending on government programs was $100 billion, the equivalent of 16.7 per cent of gross domestic product (GDP). These expenditures can be classified into seven major categories of programs (Chart 1):

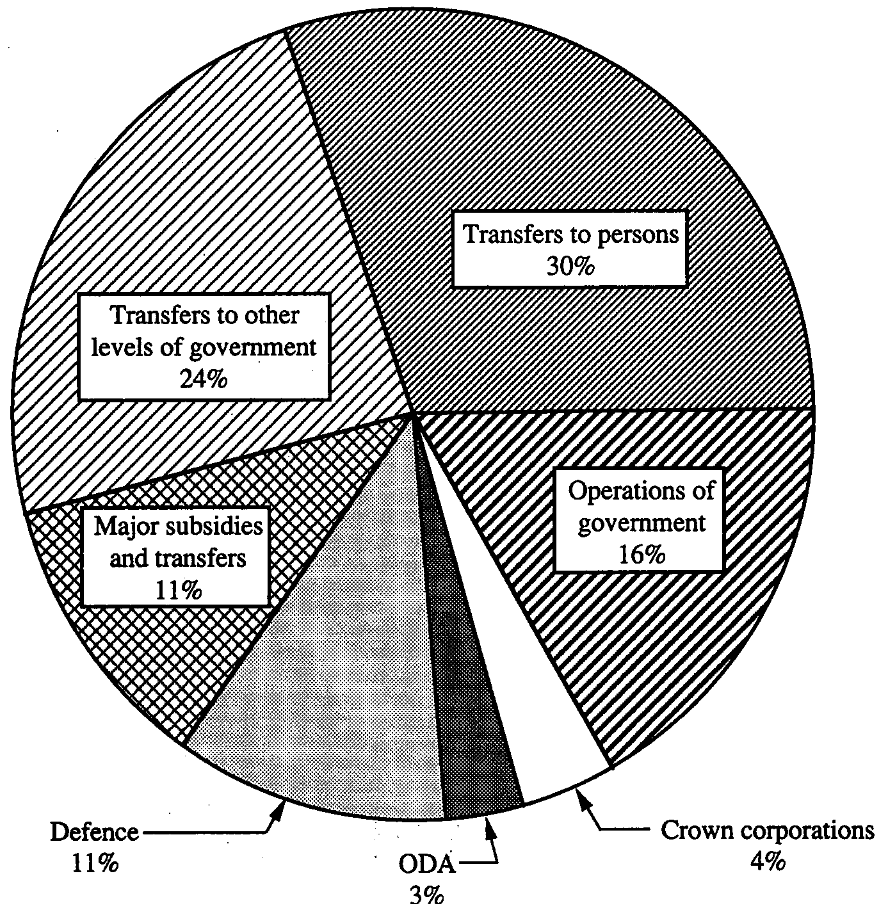
- transfers to persons;
- transfers to other levels of government;
- major subsidies and transfers;
- major payments to Crown corporations;
- defence;
- foreign aid (Official Development Assistance); and
- operations of government.

By far the largest government program category is transfers to persons: $30 billion in 1988-89, or 30 per cent of total program spending. More than half consisted of assistance directed to the elderly through payments of old age security, the guaranteed income supplement and spouse's allowance benefits. Unemployment insurance benefits were $10.8 billion, accounting for over one-third of direct payments to individuals. Family allowance benefits were $2.6 billion. Veterans' pensions and allowances amounted to a further $1.2 billion.

Financial assistance to other levels of government is the second largest component. The federal government transferred over $24 billion to provinces, territories and municipalities in 1988-89. Almost 90 per cent of these transfers were made under three major programs – Established Programs Financing (EPF), equalization and the Canada Assistance Plan (CAP). Under EPF, the government provides financial assistance to the provinces and territories in respect of their responsibilities for the provision of health care services and post-secondary education. The equalization program ensures that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Under the Canada Assistance Plan, the

Chart 1

The Structure of Program Expenditures 1988-89



federal government reimburses the provinces for 50 per cent of eligible expenditures for assistance to persons in need. The remainder of the federal assistance consists of a variety of smaller statutory and non-statutory programs.

Major subsidies and transfers accounted for 11 per cent of program spending ($11.2 billion) in 1988-89. About one quarter of spending in this category was transfer payments to stabilize and protect farm incomes. In addition, this category includes payments to encourage industrial and regional development, to foster job skills, to support research, development and exploration, and to provide assistance to native communities. Also, subsidies are paid to the railways for the transportation of western grain and to eligible students in the form of guaranteed and subsidized loans.

The remainder of program spending includes major payments to Crown corporations, defence, foreign aid and government operations. Payments to Crown corporations were 4 per cent of program spending in 1988-89, while 11 per cent of program spending was allocated to defence. An additional 3 per cent went to

providing aid to developing countries under Official Development Assistance. The final component of government spending is the costs of running the government. This amounted to 16 per cent of total program spending in 1988-89.

Program Expenditure Restraint in the Last Four Years

The rapid increase in federal government program spending was a major factor contributing to the rise in the deficit in the early 1980s. Double-digit inflation and the 1981-1982 recession contributed to large increases in spending on indexed programs and a rise in unemployment insurance benefits. Over the four years ending in 1984-85, program spending rose at an average annual rate of 13.9 per cent.

Since November 1984, fiscal actions have restrained the growth in spending on programs. Over the period 1984-85 to 1988-89, program spending increased at an average annual rate of only 3.6 per cent (Table A-1), less than half the growth in the economy and also less than the rate of inflation.

Table A-1

Program Spending

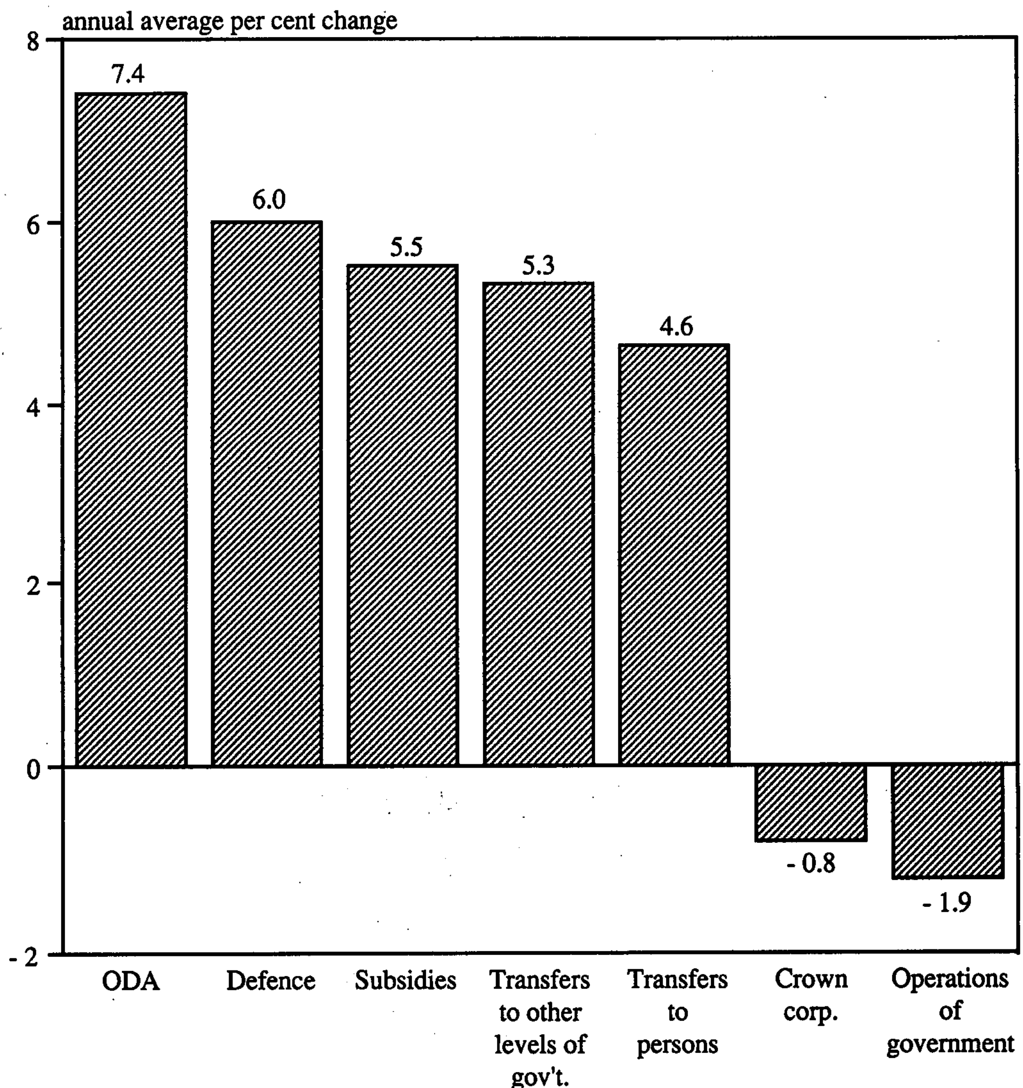
	1984-85	1988-89	Absolute change	Average annual change
	(billions of dollars)			(per cent)
Transfers to persons	25.1	30.0	4.9	4.6
Transfers to other levels of government	19.7	24.3	4.5	5.3
Major subsidies and transfers	9.0	11.2	2.1	5.5
Major payments to Crown corporations	4.6	4.4	−0.2	−0.8
Defence	8.8	11.1	2.3	6.0
Official Development Assistance	2.1	2.8	0.7	7.4
Operations of government	17.5	16.2	−1.3	−1.9
Program spending	86.8	100.0	13.2	3.6
Public debt charges	22.5	33.0	10.5	10.1
Total spending	109.2	133.0	23.8	5.0

Note: Figures may not add due to rounding.

Spending on programs in total is estimated to have increased by $13.2 billion between 1984-85 and 1988-89. Among the seven major components of program spending, operations of government and major payments to Crown corporations recorded absolute declines (Chart 2). Operations of government have been cut an average of 1.9 per cent per year. The reduction of personnel and overhead costs was a major factor in bringing the cost of running the government to a lower level in 1988-89 than four years earlier. Payments to Crown corporations declined some 0.8 per cent per year on average. Savings from these two components allowed the government to make substantial progress in controlling the growth of program expenditures while continuing to meet social, cultural, economic and international policy objectives.

Chart 2

Growth in Program Spending 1984-85 to 1988-89



Transfers to persons increased at an average annual rate of 4.6 per cent, with nearly all of the increase due to higher payments to the elderly. Increases reflect the growth in the number of recipients and the rise in average benefits required to keep pace with inflation.

Cash transfers to other levels of government increased at an average annual rate of 5.3 per cent over the last four years. The biggest component of the cash increase was higher equalization payments to the lower-income provinces. This reflected the impact of both strong growth in the province of Ontario and in overall provincial revenues on the equalization formula. In addition, tax transfers constitute significant amounts available to provinces. The annual growth of total transfers (cash plus tax) has averaged over 6 per cent during the last four years.

Major subsidies and transfers increased at an average annual rate of 5.5 per cent from 1984-85 to 1988-89. The most rapid increase was in payments to the agricultural sector as the government provided additional assistance to farmers hurt by the international grains price war and the drought. Federal spending on agriculture increased from $3.2 billion in 1984-85 to some $5.8 billion in 1987-88.

Defence spending increased 6.0 per cent on average per year from 1984-85 to 1988-89, reflecting the priority placed by the government on refurbishing Canada's defence capabilities.

Official Development Assistance rose significantly from 1984-85 to 1988-89 – 7.4 per cent per year – in line with the government's policy of maintaining growth in aid consistent with growth in the Canadian economy.

The result of the government's fiscal measures has been a sharp reduction in program expenditure growth and a sizable reduction in program expenditures as a per cent of GDP. From a peak of 19.5 per cent of GDP in 1984-85 program spending was reduced to 16.7 per cent in 1988-89 (Chart 3) – a level comparable to that recorded prior to the 1981-1982 recession. The measures undertaken since November 1984 have resulted in the restructuring and better targeting of government programs, bringing about a better balance between program spending and total revenues. The government now spends less on its programs than it receives in revenues (Chart 4).

Chart 3

Program Expenditures Relative to the Economy

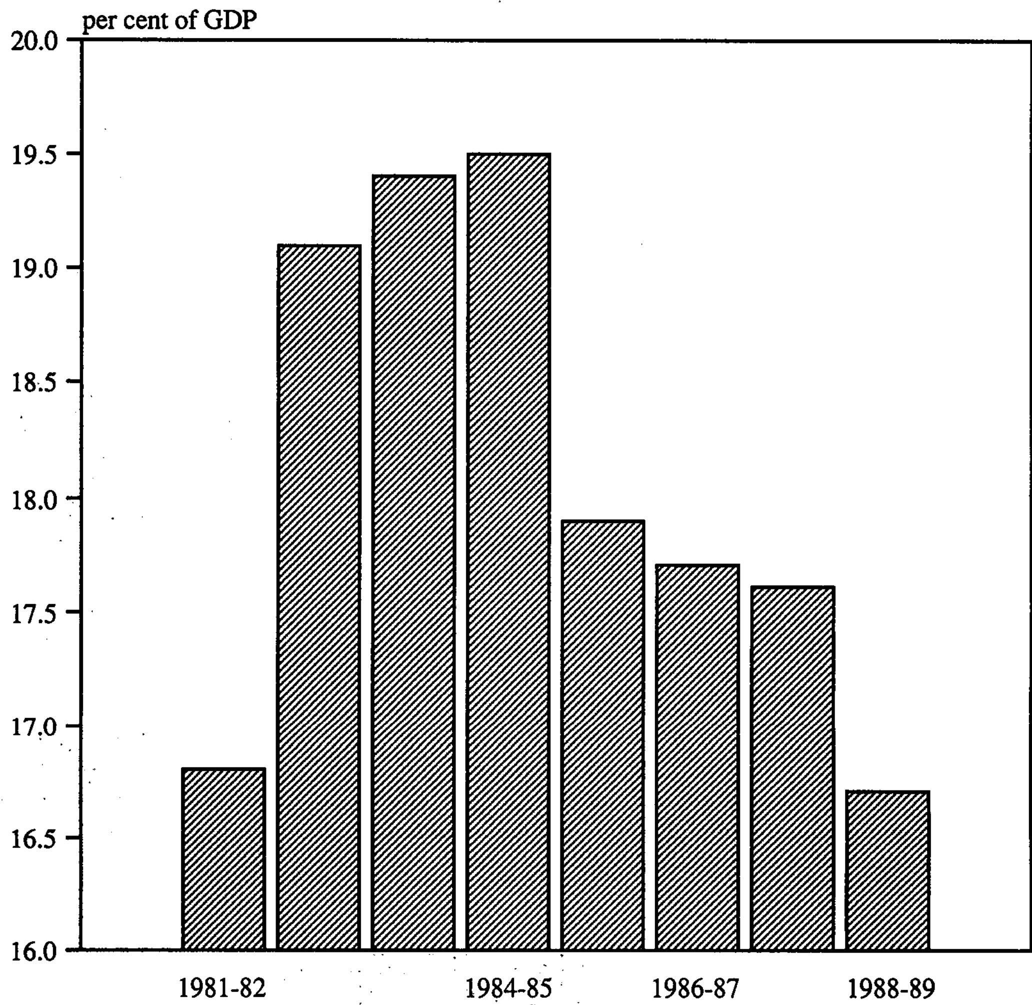
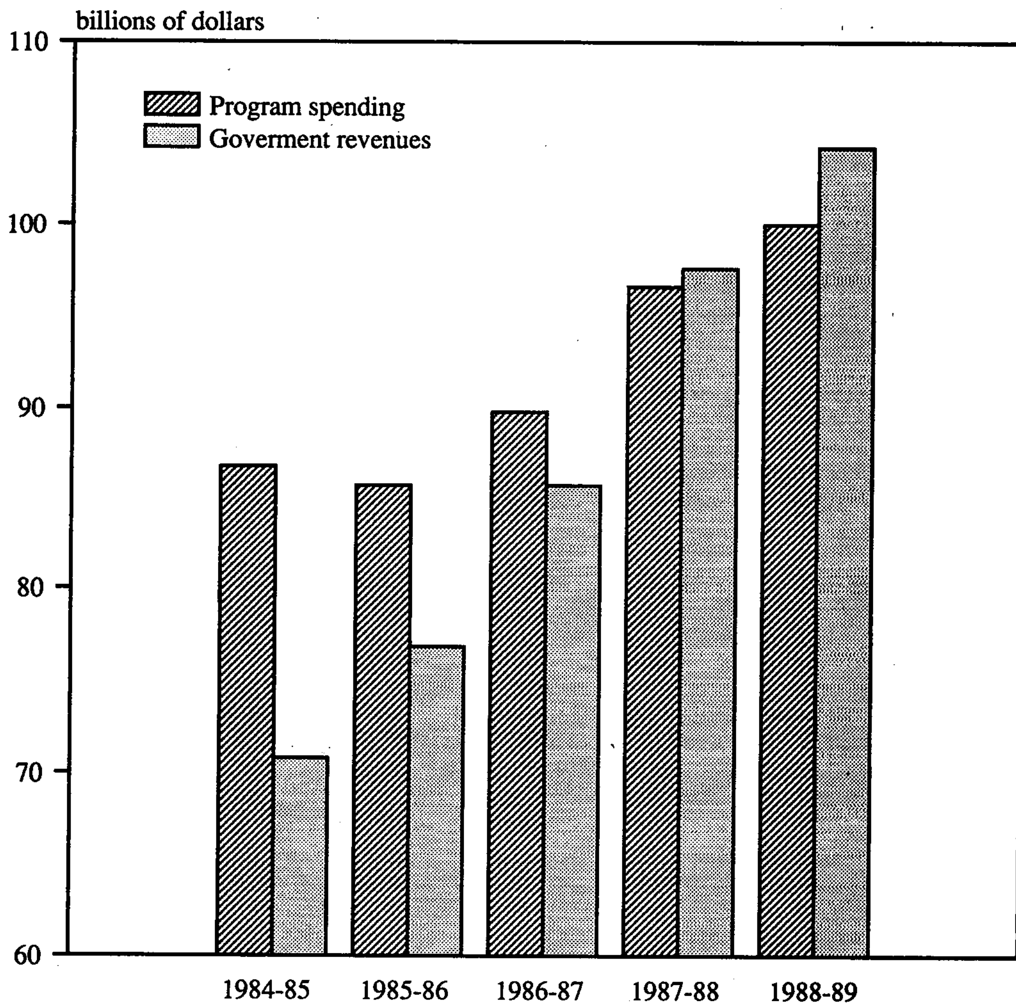


Chart 4

Program Spending and Government Revenues



Expenditure Restraint Measures

As part of the government's ongoing policy of controlling the growth of the public debt, further expenditure restraint is being applied to program expenditures. The following table presents the expenditure reduction measures announced in this budget. Expenditure reductions amount to $1.5 billion in 1989-90, $2.1 billion in 1990-91, and rise to about $2.5 billion per year thereafter.

Table A-2

Expenditure Restraint Measures

		1989-90	1990-91
		(millions of dollars)	
A.	**Transfers to persons**		
	Repayment of social transfers[1]	–	215
B.	**Transfers to other levels of government**		
	Established Programs Financing	–	200
	Canada Child Care bill	175	195
	Crop Insurance Cost Sharing	90	110
	Total	265	505
C.	**Major subsidies and other transfers**[2]		
	At and East freight rate subsidies	20	40
	Branchline Rehabilitation Program	46	2
	Prairie Grain Advance Payment/Advance Payment for Crops Act	27	27
	Canadian Exploration and Development Incentive Program	80	–
	Secretary of State – grants and contributions	10	16
	Dairy export subsidy	5	7
	Total	188	92
D.	**Major payments to Crown corporations**		
	VIA Rail	50	75
	Residential Rehabilitation Assistance Program	21	49
	Publications distribution assistance	10	45
	Canadian Broadcasting Corporation	–	20
	Federal Business Development Bank	13	13
	Commodity based loans	6	9
	Canadian Dairy Commission	3	7
	National Capital Commission	5	5
	Total	108	223
E.	**Defence**	575	611
F.	**Official Development Assistance**	360	360
G.	**Operations of government**		
	Unsolicited Proposals Program	10	20
	Public Works Canada capital deferral	20	20
	Newfoundland prison	7	14
	Conservation and Renewable Energy Offices/National Conservation and Alternative Energy Initiatives	10	9
	Tourism marketing	–	5
	Automated cheque deposit	–	3
	Canada Oil and Gas Lands Administration	2	2
	Total	49	73
H.	**Total expenditure restraint measures**	1,545	2,079

[1] This repayment will be achieved through the operation of the tax system.

[2] There will be a reduction in funding for the Defence Industry Productivity Program of $25 million per year beginning in 1991-92.

Transfers to Persons

Repayment of Social Transfers

Canadians aged 65 and over are eligible for old age security pensions (OAS), and families with dependent children under the age of 18 are eligible for family allowance (FA) payments, regardless of the need for assistance. These payments are subject to personal income tax.

The budget proposes to recover these payments from higher-income Canadians. Higher-income individuals will repay old age security pension and family allowance benefits at a rate of 15 per cent of individual net income exceeding $50,000. Repayments will be calculated on the income tax return and will be deductible in determining the amount of income subject to the personal income tax. They will also be deductible in determining family income for the purposes of calculating the refundable child tax credit.

Canadians with incomes of $50,000 or less are not affected by the measure.

This measure will be phased in over three years. Actual repayments in 1989 will be one-third of the amount repayable; actual repayments in 1990 will be two-thirds of the amount repayable. The full amount will be repayable in 1991 and subsequent years. For 1990 and subsequent taxation years, the $50,000 threshold will be indexed on the same basis as other indexed brackets and thresholds in the tax system. The level of the threshold will be reviewed periodically and adjusted as appropriate.

The following examples show how the repayment would be calculated in 1989 for two individuals, one reporting family allowances and the other old age security. Both are assumed to have a net income of $60,000.

The $50,000 threshold ensures that only benefits received by higher-income Canadians will be subject to repayment. Lower- and middle-income Canadians in receipt of these benefits will not be affected.

Based on 1990 estimates, it is projected that under the mature system, 368,000 high-income families would repay all of their family allowance benefit, and 167,000 would repay part. In total, family allowances of approximately 14 per cent of recipients would be affected. The gross amount of family allowance repaid would be $318 million. Table A-4 provides the distribution of family allowance benefits and the amounts repaid.

Table A-3

	Example 1	Example 2
	Filer with two children and receiving $784 of family allowance	Senior filer with $3,928 of old age security pension
	(dollars)	
(1) Net income of filer	60,000	60,000
(2) Less exempt income threshold	50,000	50,000
(3) Income exceeding threshold	10,000	10,000
(4) Gross amount to be repaid (lesser of FA and/or OAS and 15 per cent of line 3)	784	1,500
(5) Repayment during transition (1/3 of line 4 in 1989)	261	500

These repayments will be added to the individual's tax liability.

Table A-4

Family Allowance by Income Range

Taxfiler net income	Number of recipients	Percentage of recipients	Total benefits	Gross amounts repaid
(dollars)	(000)	(per cent)	(millions of dollars)	
Under 30,000	2,005	52.1	1,308	0
30,000 – 40,000	740	19.2	530	0
40,000 – 50,000	530	13.8	378	0
50,000 – 60,000	302	7.8	230	117
60,000 – 75,000	137	3.6	97	94
75,000 – 100,000	73	1.9	58	58
100,000 and over	63	1.6	49	49
Total	3,850	100.0	2,650	318

Note: Information assumes 1990 family allowance benefit and income distribution. Figures shown for "gross amounts repaid" are for a mature system. Repayments are gross of income taxes otherwise payable.

Based on 1990 estimates, the mature system would mean that 54,000 high-income OAS recipients would repay all of their benefit and 74,000 would repay part of it. In total, only 4.3 per cent of all OAS beneficiaries would be affected, with 1.8 per cent repaying the full benefit. The gross amount repaid would be approximately $300 million. The distribution of OAS benefits and of the amounts repaid is set out in Table A-5.

Table A-5

Old Age Security by Income Range

Taxfiler net income	Number of recipients	Percentage of recipients	Total benefits	Gross amounts repaid
(dollars)	(000)	(per cent)	(millions of dollars)	
Under 30,000	2,633	87.8	10,080	0
30,000 – 40,000	160	5.3	625	0
40,000 – 50,000	75	2.5	290	0
50,000 – 60,000	45	1.5	175	25
60,000 – 75,000	30	1.0	116	63
75,000 – 100,000	25	0.8	94	92
100,000 and over	32	1.1	120	120
Total	3,000	100.0	11,500	300

Note: Information assumes 1990 old age security pension benefits and income distribution. "Gross amounts repaid" are for a mature system. Repayments are gross of income taxes otherwise payable.

Table A-6 illustrates the net impact of the repayment on typical higher-income individuals. The table also takes into account the fact that family allowances are taxable in the hands of the higher-income spouse whereas OAS is taxable in the hands of the recipient. The net impact on individuals and families is lower than the amount of the repayment, since the total payment is currently subject to income tax and so is partially recovered through the normal operation of the tax system.

Table A-6

Net Impact of the Repayment on Typical Taxfilers[1]

Taxfiler net income	One-earner family with two children			Single 65 and over[2]		
	1989	1990	1991	1989	1990	1991
			(dollars)			
50,000 and below	0	0	0	0	0	0
52,500	73	114	104	73	114	104
55,000	147	260	323	147	260	323
60,000	141	283	436	269	507	699
65,000	141	283	436	404	775	1,101
70,000	141	283	436	539	1,043	1,503
75,000	140	278	429	668	1,289	1,884
85,000	140	278	429	700	1,438	2,254
100,000	140	278	429	700	1,438	2,254

Note: Family allowances are assumed to be $392 in 1989, $396 in 1990, and $400 in 1991. Old age security benefits are assumed to be $3,928 in 1989, $4,105 in 1990, and $4,275 in 1991.

[1] The net impact of the repayment measure is equal to the amount of the benefit repaid less the regular income tax that would have applied to the repaid portion in the absence of the repayment provision. The net impact thus depends on the taxpayer's marginal rate of tax, including surtax. The calculations use the income tax rates applicable in the years shown after allowing for the changes in surtax rates proposed in this budget.

[2] Taxpayers are assumed to receive only old age security, pension and investment incomes.

Transfers to Other Levels of Government

Established Programs Financing

Under Established Programs Financing (EPF) the federal government provides financial assistance to provinces through the transfer of tax points and cash payments. Historically, these transfers were undertaken to assist provinces in carrying out their responsibilities with respect to health care and post-secondary education. Since 1977, provinces have been able to use these transfers according to their particular priorities, rather than in the more restricted fashion required by the previous cost-sharing arrangements.

In 1989-90 total federal transfers to provincial governments, including EPF, will amount to over $34 billion, of which $24 billion is cash payments and $10 billion takes the form of tax transfers. Cash transfers to provinces account for about 23 per cent of federal program spending.

As part of its efforts to control debt through deficit reduction, the government proposes to reduce the growth of EPF transfers by one percentage point beginning with the 1990-91 fiscal year. Legislative provisions will continue to ensure that growth of the total EPF transfer will not fall below the rate of inflation. The change in the growth of EPF transfers will result in federal expenditure reduction of $200 million in 1990-91 with increasing savings in future years.

Even after this reduction in the growth rate, total EPF cash and tax transfers are expected to continue to grow significantly. EPF transfers which were $14.6 billion in 1984-85 are expected to exceed $20.8 billion in 1990-91. Over the coming five years, EPF transfers to provinces will total nearly $108 billion, an increase of $24.5 billion over the previous five years.

Table A-7

Estimated Growth of EPF Transfers to Provinces for the Five-Year Period from 1989-90 Compared to the Previous Five Years

	1984-85 to 1988-89	1989-90 to 1993-94	Growth
	(millions of dollars)		
Established Programs Financing			
Cash	43,091	48,695	5,604
Tax	40,263	59,170	18,907
Total	83,354	107,865	24,511

In addition, the lower-income provinces will continue to receive equalization transfers to assist them to provide public services including services in the areas of health and post-secondary education. Over the past five years, equalization entitlements have grown by 35 per cent, from $5.4 billion in 1984-85 to $7.3 billion in 1989-90.

Canada Child Care

The Minister of National Health and Welfare announced a national strategy for child care in December 1987. It consists of three major elements: new measures to accelerate the creation of good quality child care spaces across Canada; new tax assistance to families with pre-school children and children with special needs; and a fund to support innovative initiatives to meet child care needs. Funding of $6.4 billion was allocated to support this strategy over the first seven years.

The new tax assistance measures are in place. They include a $200 supplement to the refundable child tax credit in respect of pre-school children, and an increase in the child care expense deduction from $2,000 to $4,000 for parents of children up to age 6 and children with special needs. The maximum deduction in respect of children age 7 to 14 remains $2,000. The $8,000 limit on allowable deductions per family has been removed for all families to ensure that the costs borne by larger families are more adequately recognized. Together, these tax measures, which are basic to the government's child care policy, help 1.4 million families with the costs of caring for their children. Over seven years, the value of these measures is estimated at $2.3 billion.

The Child Care Special Initiatives Fund, underway since April 1, 1988, promotes research and development into ways of improving child care services. It will be available over a period of seven years at a total cost of $100 million. The government has so far approved 77 projects.

To increase significantly the number of good quality child care spaces across Canada, the government proposed an expenditure of $4 billion over the seven year period. These funds would have been augmented by the provinces in new cost sharing agreements. Because of the fiscal situation, the government has decided not to proceed at the present time with this proposal. Before the end of its term of office, the government will act to meet its child care objectives.

In the interim, the federal government will continue to share the cost of child care services that are eligible for support under the Canada Assistance Plan. The federal government's contribution is expected to continue to grow from $160 million in 1987-88 and $200 million in 1988-89 to an estimated $240 million in 1989-90.

Taking into account the two major elements of the government's child care strategy which are now in place, and the expected growth in expenditures under the Canada Assistance Plan, the savings from not proceeding at this time with the remainder of the strategy are estimated at $175 million in 1989-90.

Crop Insurance – Cost Sharing

Crop insurance is a federal-provincial cost-shared program that compensates participating producers for crop losses caused by natural hazards such as drought or insects. Current crop insurance cost-sharing arrangements vary significantly among provinces. In Quebec and Newfoundland, the federal and provincial governments each contribute 25 per cent of premium costs, and share administration costs equally. Producers pay the remaining 50 per cent of premiums. In all other provinces, premium costs are shared equally between the federal government and producers, with provincial financial involvement limited to administration costs. The provincial share of the cost of this program has been declining and now amounts to less than 10 per cent of total crop insurance costs.

The federal government has initiated discussions with the provinces with a view to renegotiating existing cost sharing arrangements. It is expected that a rebalancing of the costs of this program will result in a federal saving of about $90 million in 1989-90 and $110 million in 1990-91.

Major Subsidies and Transfers

At and East Grain and Flour Subsidy Program

The At and East Grain and Flour Subsidy Program, which is administered by the National Transportation Agency, provides subsidies to the railways on:

- grain moving for export, received at ports on Georgian Bay, Lake Huron, Lake Ontario and the upper St. Lawrence as far as Prescott, and transported by rail to ports east of and including Montreal; and

- flour moving for export from points east of Thunder Bay, and transported by rail to ports east of and including Montreal.

The amount of the subsidy is equal to the difference between the revenues received by the railways from freight rates frozen at the levels which were in effect in the 1960s, and the actual costs which they incur on these movements.

This program evolved in response to a 1959 rate reduction by U.S. railways for grain movements from points "at and east" of Buffalo, New York to Atlantic ports. The intent of the program was to ensure that Canadian grain and flour shipments would continue to be exported through Canadian east coast ports, rather than through competing U.S. ports. This competitive concern no longer exists since the cost of shipping by rail to U.S. ports is now considerably higher than the cost of shipping by water through the Great Lakes/St. Lawrence Seaway. The subsidy has the effect of diverting traffic away from the Seaway in favour of subsidized rail movements, and is inconsistent with the government's market-oriented transportation policy.

A related Agriculture Canada program provides payments to millers in Western Canada to offset charges by railways for "stop-off" in order to mill grain at Prairie locations en route to Thunder Bay. The purpose of the subsidy, which involves annual expenditures of less than $1 million, is to equalize railway "stop-off" charges for western mills with those in Eastern Canada, which have been frozen under the At and East subsidy.

These programs will be terminated effective July 15, 1989 and are expected to result in annual savings of about $40 million.

Branchline Rehabilitation

The Branchline Rehabilitation Program, which is administered by Transport Canada, was established in 1984 with a funding provision of about $500 million over five years. The program's objective was to improve and upgrade the rail branchline system for transporting western grain. Since its inception, the program has provided funding for a variety of capital projects to upgrade grain dependent Prairie branchlines, beginning with the highest priority cases in the initial years. To date, over $450 million has been spent on the program.

The program is being terminated one year early, resulting in annual savings of $48 million in 1989-90 and $4 million in 1990-91. In order to ensure continuing improvements to the efficiency of western grain transportation, $16 million of these savings will be redirected to the System Improvement Reserve (SIR), a fund administered by the Grain Transportation Agency, which will be extended. This will assist in the development of more cost effective grain transportation alternatives.

Prairie Grain Advance Payments Act/Advance Payments for Crops Act

These programs provide producers of storable crops with interest-free government guaranteed loans at harvest time, based on a portion of the value of the crop, up to a $30,000 maximum. The loan is repaid as the crop is sold. The Prairie Grain Advance Payments Act and the Advance Payments for Crops Act will be amended to remove the interest-free provision while maintaining the loan guarantee. The objective of the program is to ensure that producers can obtain cash in advance from lenders on the strength of their marketable crops. The interest-free aspect of the loans is not fundamental to this objective. Elimination of the interest subsidy will result in savings of about $27 million in each of 1989-90 and 1990-91.

Canadian Exploration and Development Incentive Program

The Canadian Exploration and Development Incentive Program (CEDIP) was introduced in April 1987. Administered by the Department of Energy, Mines and Resources, it provides a grant of 25 per cent of oil and gas exploration and

development expenditures, up to a maximum of $10 million of expenses per company. The incentive rate is scheduled to drop to 16 2/3 per cent on July 1, 1989 and to zero on December 31, 1989.

Except as outlined below, expenses incurred after April 27 will no longer be eligible for CEDIP. Expenses which will continue to qualify are those in respect of wells spudded and in progress on April 27 and those undertaken pursuant to legally binding commitments entered into prior to April 27. All incentive payments in respect of qualifying expenses will be subject to the previously announced rate changes on July 1, and December 31, 1989. This measure will result in savings of $80 million.

Secretary of State Grants and Contributions

The Department of the Secretary of State helps fund voluntary groups and organizations across Canada and also supports provincial programs involved in such activities as the promotion of official languages, citizenship development and multiculturalism. In 1988-89, roughly $365 million in grants and contributions was earmarked for these purposes. As part of the government's overall deficit management strategy, there will be a $10 million reduction of these program funds in 1989-90 rising to $16 million in 1990-91.

Starting this fiscal year, the following program areas, which accounted for $133 million in 1988-89, will be those most affected: multiculturalism ($2 million); official languages ($1.5 million); women's program ($2 million); and native citizens ($3 million). Within these program areas, the reductions will be targeted towards the administrative overhead of groups. Emphasis will be given to supporting community based projects which respond to new and emerging priorities.

Effective April 1, 1990, the Citizenship Instruction and Language Textbook (CILT) agreements with the provinces will be terminated, in accordance with the cancellation provisions of these agreements. Other government programs to assist immigrants to integrate into Canadian society will continue.

Dairy Special Export Program

The Dairy Special Export Program, introduced in 1979 and administered by the Canadian Dairy Commission, provided for a direct subsidy of $6.03 per hectolitre on 2.2 million hectolitres of milk production intended for sale on foreign markets. In 1984, the amount of milk eligible for the $6.03 per hectolitre subsidy was reduced by half to 1.1 million hectolitres. The elimination of the remaining half of the program will reduce government spending by about $7 million annually.

Defence Industry Productivity Program

The Defence Industry Productivity Program, administered by Industry, Science and Technology Canada, supports projects to develop aerospace and defence-related products and advanced technology capabilities in Canada. Program spending, which is approximately $250 million, will be reduced by 10 per cent beginning in 1991-92, generating annual savings of $25 million. This program has been growing steadily, from $153 million in 1984-85. DIPP supports multi-year projects, and much of the program's budget over the near-term is committed. Reductions beginning in 1991-92 will not affect existing contractual obligations.

Major Payments to Crown Corporations

Via Rail

Rail passenger services have been a dilemma for government since the 1950s. As early as 1961, the MacPherson Royal Commission proposed that all services except those to isolated communities be phased out. Since then, various strategies have been adopted to improve the competitiveness and financial viability of passenger rail including amendments to the Railway Act in 1967, the creation of VIA in 1977, and equipment improvement programs in the 1980s.

Since 1984, the government has attempted to introduce a more businesslike approach to the provision of rail passenger services. The 1985 budget set out the government's intention to reduce VIA Rail's annual requirements for government assistance from $600 million in 1985 to $400 million in 1989. In 1986, the Minister of Transport enunciated the "Use it or lose it" principle making it clear that service cuts would have to be considered unless ridership and cost recovery increased significantly. VIA Rail was to move toward full cost recovery in the Windsor-Québec City corridor.

Unfortunately, ridership today is at the same level as 1986 and costs have steadily increased. While there has been some increase in ridership in 1988, this has only been achieved at considerable expense to the taxpayer. For example, in the last two years VIA's revenues from fares increased by only $15 million, while federal assistance to VIA rose by $84 million, thus worsening an already serious burden on the federal deficit. In 1988, the subsidy was about $100 for each passenger carried and the total annual subsidy had risen to $641 million.

Table A-8

VIA Rail Subsidy

	1980	1981	1982	1983	1984	1985	1986	1987	1988
				(millions of dollars)					
Revenues	137	160	157	173	201	206	209	198	224
Operating costs	470	575	593	609	667	659	673	650	739
Operating subsidy	333	415	436	436	466	453	464	452	515
Capital subsidy	90	109	114	135	153	154	93	81	126
Total subsidy	423	524	550	571	619	607	557	533	641

Note: The federal government subsidizes approximately 70 per cent of VIA's operating costs and 100 per cent of VIA's capital expenditures.

Source: Transport Canada.

Over this decade, rail's share of the inter-city passenger transport market has continued its long-term decline. VIA ridership has declined by 20 per cent over the last eight years and rail now accounts for less than 5 per cent of the market. This trend is expected to continue as more Canadians opt to use air and road for long distance travel.

VIA services are grouped into several categories: the Windsor-Québec City corridor, the transcontinental, and regional services, as well as services to remote communities. Because the use of passenger trains differs significantly from one route to another, levels of subsidy also vary significantly by category of service.

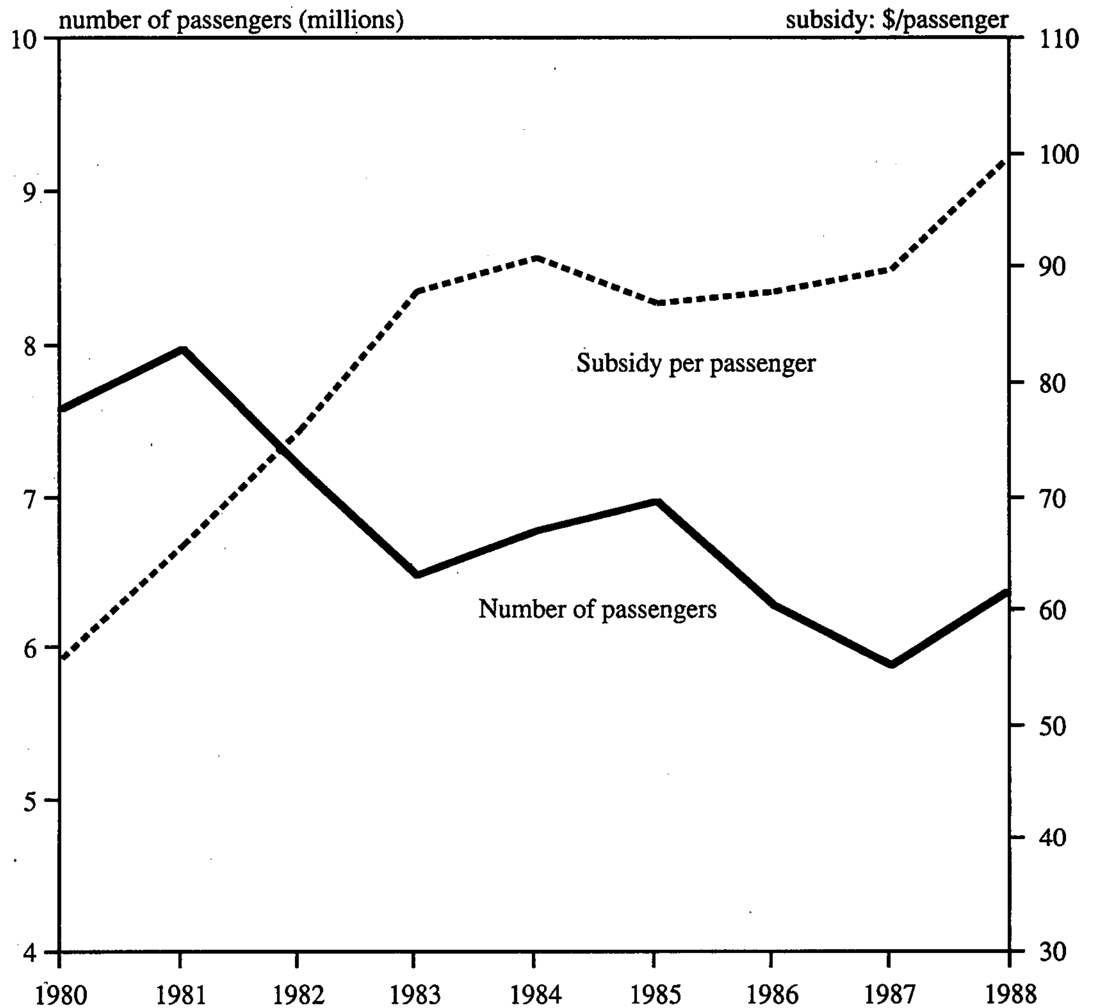
Table A-9

1988 Subsidy by Type of Service

	Average operating cost per trip	=	Average passenger revenue	+	Average operating subsidy per passenger
			(dollars)		
Windsor-Québec City corridor	67	=	27	+	40
Transcontinental	270	=	72	+	198
Regional	101	=	20	+	81

Chart 5

VIA Rail Passenger Subsidies 1980 to 1988



Source: Transport Canada.

The transcontinental and regional services are supported by extremely high subsidies. As shown in Table A-9, the average trip of 950 kilometres on the transcontinental system requires a subsidy of almost $200. For longer trips, the subsidy is greater, indeed higher in many cases than the corresponding air fare. In the Windsor-Québec City corridor the subsidy is lower, but highway and air alternatives are readily available.

Since 1984, the government has provided $3 billion of total assistance to VIA and the corporation would require an even greater subsidy over the next five years merely to maintain the existing system and services. The government has decided that in the face of rising subsidy levels combined with low ridership, the time has come to rationalize passenger rail service in Canada.

The government's objective is a substantial reduction in subsidies to the corporation although assistance necessary to provide service to truly isolated communities will continue.

As a first step in achieving these objectives, the government is establishing a new financial framework of subsidy levels for the rail passenger program. This new financial framework includes a 1989-90 subsidy level of $541 million, and declining levels in subsequent years.

VIA will be expected to adopt a more commercial approach and to operate in a more cost effective manner. The government has asked VIA to accelerate its report on the 20-year outlook for passenger rail service and to bring forward as soon as possible a business plan which will achieve the objectives set by the government. Options which will be considered by the government include increased fares, reduced service levels and closure, sale or transfer of substantial parts of the system.

Canada Mortgage and Housing Corporation

The Residential Rehabilitation Assistance Program (RRAP) includes separate components for homeowners, renters, Indians on reserves and disabled persons. Assistance is provided in the form of forgivable loans to repair or improve substandard dwellings, or to make dwellings more accessible to disabled persons. This housing program is the responsibility of the Minister of State for Housing.

The rental component of RRAP, which provides financing assistance to landlords to upgrade their properties, will be discontinued. Unlike the homeowner component, the rental component is not fully targeted to core-need households (those who spend over 30 per cent of their income on housing), since landlords are not required to rent the renovated units to core-need tenants. Other elements of the government's social housing programs are well targeted to core-need households and are, therefore, more effective.

Elimination of the rental component of RRAP will yield annual savings reaching $55 million when existing commitments are completed. The homeowners, on-reserve and disabled components will not be affected.

The federal government's Co-operative Housing Program has completed three out of a five-year experimental period which began in 1986. Program funding was supplemented in 1987 and 1988. For the remaining two years, funding will revert to the 1986 levels, with adjustments for inflation.

Publications Distribution Assistance

The publishing industry and the federal government share the cost of mailing eligible newspapers, magazines and books. On average, the industry pays 17 cents per piece and the government provides 33 cents through the current $164.5 million Infrastructure Payment paid directly to Canada Post and the $55 million Publishers Subsidy paid to Canada Post by the Department of Communications. The Minister of Communications has the policy responsibility for these payments to assist the distribution of publications.

Publications now qualifying for assistance when mailed include daily newspapers, rural weekly newspapers, Canadian periodicals and foreign periodicals printed and mailed in Canada. Books mailed by publishers, wholesalers, retailers and public libraries are also eligible.

The $164.5 million Infrastructure Payment will be reduced to yield savings of $10 million in 1989-90 and $45 million in each subsequent year. Required changes in eligibility and postal rates to offset the reduction in the infrastructure payment will be announced before July 1, 1989 by the Minister of Communications.

The Canadian Broadcasting Corporation

The government provides significant funding to the Canadian Broadcasting Corporation (CBC) to enable it to pursue its mandate as national broadcaster. An estimated $915 million was provided in 1988-89. The need to reduce federal expenditures requires that the government's contribution be reduced. Accordingly, the Corporation's annual appropriation will be reduced by $20 million in 1990-91. The reduction will increase by $10 million a year in each of the succeeding three years.

Federal Business Development Bank – Management Services

The Federal Business Development Bank (FBDB) is one of several federal government instruments which serve small business. It does so principally through term lending. FBDB also provides management services to meet the counseling, training and information needs of prospective and existing small businesses with the help of contributions by the federal government of $27 million in 1988-89.

The government contribution to the Bank's management services will be reduced by $13 million per year. The reductions will be phased in over the course of the year to allow the Bank time to adjust its programs and increase cost recovery. FBDB's term lending and venture capital programs will not be affected by these measures.

Commodity Based Loans

The Commodity Based Loan Program (CBLP) was introduced in 1986, and provides subsidized loans to low equity Farm Credit Corporation clients in financial difficulty. CBLP participation was relatively high during the program's first two years, but has declined significantly. No new commodity based loans will be made, resulting in lower federal expenditures of $6 million in the first year and $8.5 million in the second.

Canadian Dairy Commission (CDC) Skim Milk Powder (SMP) Marketing Costs and CDC Operating Costs

Under the current dairy program, skim milk powder marketing costs (storage, handling and transportation) associated with surplus SMP, and Canadian Dairy Commission operating costs are funded by the federal government. The reduction of these costs will generate government savings of $7 million annually. Details of the implementation of these changes will be discussed with the industry.

National Capital Commission

In recent years, the government has emphasized a more specialized programming and custodial role for the National Capital Commission (NCC) in carrying out its mandate of preserving and enhancing the nation's capital. At the same time, the NCC's contributions to infrastructure have been reduced. In 1988-89, the NCC's budget was $104 million. Beginning in 1989-90, its appropriation will be reduced by $5 million per annum.

Defence

The 1987 White Paper on defence set out the broad principles of Canadian defence policy: protection of our sovereignty through territorial and coastal defence and participation in the North Atlantic Treaty Organization (NATO) and the North American Aerospace Defence (NORAD) arrangement. Other important principles include promotion of international stability through active encouragement of arms control discussions and participation in peacekeeping operations.

In keeping with the principles underlying Canada's defence policy, the defence budget has grown in recent years. In the four years from 1984-85 to 1988-89, annual funding has grown from $8.8 billion to $11.1 billion or about 6 per cent annually. This growth in defence spending occurred during a period of fiscal restraint, when total government program spending (excluding defence) was increasing at about 3.3 per cent annually.

In the present fiscal environment, however, it has become necessary to reduce the rate of growth in defence spending. The slower growth for the period 1989-90 to 1993-94 will result in reductions totalling $2.74 billion.

For 1989-90, the defence funding level has been established at $11.2 billion, a 1.2 per cent increase over actual expenditures in 1988-89. Thereafter the growth rate will be about 5 per cent annually to 1993-94. As a share of total government program expenditures, defence spending is expected to average more than 11 per cent for the period 1989-90 to 1993-94, approximately the same share as that over the period 1985-86 to 1988-89.

The basic parameters of the White Paper remain the defence policy of the Government although, in the current fiscal context, that policy will need to be implemented more slowly. It is expected that real growth in defence spending in the ten year period beyond 1993-94 will be able to increase compared with the real growth over the next five years, as the fiscal situation is brought under better control.

In line with this slower pace of implementation, and in order to achieve the $2.74 billion in spending reductions over the 1989-90 to 1993-94 period, a number of adjustments to infrastructure and to the configuration of capital acquisitions will be necessary. A number of military bases and stations across the country will be closed or reduced in size. There will be slight reductions in the size of the Canadian Forces and the Defence Department's civilian workforce. In addition, a number of equipment acquisitions will be cancelled and others reduced in size or put on hold, details of which will be released in the weeks to come.

For these reasons, the government has decided not to proceed with the acquisition of nuclear-propelled submarines. The government will undertake an immediate examination of alternatives for the continued rebuilding of an effective navy.

Official Development Assistance

Canada has a long and generous tradition of providing assistance to developing countries. Canadian Official Development Assistance (ODA) takes many forms, including food aid, bilateral project financing and assistance through multilateral agencies such as the World Bank and the United Nations Development Program – all to help developing countries achieve sustainable economic and social development. The Canadian International Development Agency (CIDA) is responsible for administering about 77 per cent of ODA, which it does in co-operation with a number of partners as outlined in the government's aid strategy. Other responsible departments and agencies include the Department of Finance, the Department of External Affairs, and the International Development Research Centre (IDRC).

ODA targets have been set at 0.5 per cent of GNP in recent years. Strong Canadian economic growth has meant that ODA cash levels also grew substantially, from $2,089 million in 1984-85 to $2,781 million in 1988-89 or an average of about 7.4 per cent annually compared to 3.6 per cent for all government program spending. ODA has been one of the fastest growing government programs and one of the few major programs which have grown in real terms in recent years.

Against the background of ODA's rapid growth and the government's tight fiscal position, the budget proposes to reduce the planned ODA cash level by $360 million in 1989-90; the ODA cash level will be $2,443 million. This is expected to result in an ODA/GNP ratio of about 0.43 per cent. In 1990-91, growth in the ODA/GNP ratio will resume, with the ratio increasing to 0.45 per cent. Thereafter, ODA commitment levels would grow by 0.005 percentage points annually as a proportion of GNP. Cash savings in 1990-91 will be $360 million. Over the five-year period of the fiscal framework, cash savings would total $1,787 million.

This action will contribute to the deficit reduction effort while maintaining a strong commitment to development assistance and providing for real growth over time. However, as a consequence the government has had to modify its goal of attaining 0.6 per cent of GNP allocated to ODA by 1995-96.

Canada's aid contribution will continue to be one of the most generous among developed countries. In 1987 (the latest year for which data are available), Canada's ODA/GNP ratio level was the second highest among the seven summit countries. Notwithstanding the impact of the budgetary measures, Canada will still maintain a favourable position, with Canadian ODA as a percentage of GNP well above the Group of Seven (G-7) average.

Table A-10

1987 ODA as a Per Cent of GNP for G-7 Countries

France	0.51
Canada	0.47
Germany	0.39
Italy	0.35
Japan	0.31
United Kingdom	0.28
United States	0.20
G-7 weighted average	0.30

Operations of Government

Unsolicited Proposals Program

The Unsolicited Proposals Program was implemented in 1974 and is administered by the Department of Supply and Services. This program provides monies to assist departments to fund unsolicited studies and product development proposals which are submitted by the private sector and are related to government operations. No new proposals will be funded under the Unsolicited Proposals Program but those in process will receive consideration. Savings will be $10 million in 1989-90, $20 million in 1990-91 and $23 million annually upon program termination in fiscal year 1991-92.

Public Works Canada Capital Deferral

Public Works Canada, through its capital program, accommodates the federal government's needs for general purpose and shared use of real property, including land, buildings and certain federal transportation infrastructure. Funding available to Public Works for capital expenditures, which currently is approximately $170 million per year, will be reduced by $20 million per year over the next two years. This reduction will be met in a number of ways through deferrals of planned new capital projects and through the extension of existing projects.

Transport Canada Building

Public Works Canada has requested tenders for the construction of a new headquarters facility in the National Capital Region for Transport Canada. This facility would provide new accommodation for approximately 5,000 Transport Canada employees who are presently accommodated in several leased buildings in the National Capital Region. The total capital cost of this facility is estimated to be in the order of $200 million.

The call for tenders for this new facility will be terminated as part of the government's overall restraint effort. Accommodation for Transport Canada employees will continue to be arranged through leases of existing properties in the National Capital Region.

Newfoundland Prison

Construction of the new prison planned for Newfoundland will be delayed, reducing expenditures by $30 million over the next three years. The delay will not jeopardize public safety as existing cell capacity can meet the region's needs.

National Conservation and Alternative Energy Initiative and Conservation and Renewable Energy Offices

The National Conservation and Alternative Energy Initiative (NCAEI) was introduced in 1985 as part of the transition away from the interventionist National Energy Program (NEP) toward a more market responsive energy policy. NCAEI, which is administered by the Department of Energy, Mines and Resources, will be reduced by $8 million in 1989-90 and the program phased out as scheduled by the end of 1990-91. In addition, the 12 regional Conservation and Renewable Energy Offices, which were part of the NEP regime, are being closed. This will result in savings of $2 million in 1989-90 and $8.5 million per year thereafter.

Tourism Marketing

The tourism program, administered by Industry, Science and Technology Canada, focuses mainly on marketing Canada as a tourist destination in the United States and overseas, as well as administering market and product research activities. Annual expenditures under the program will be reduced from the current level of $30 million to $20 million in stages, beginning with $5 million in 1990-91. Rationalization of current activities, along with efforts to encourage more private sector marketing efforts, are expected to provide for an even more cost-effective ongoing program at the reduced level of federal spending.

Automated Cheque Deposit

The government currently mails cheques to almost all recipients of federal benefits under the Canadian Pension Commission, War Veterans Allowance, Family Allowance, Old Age Security and Canada Pension Plan programs. By encouraging people to choose the option of electronic transfer of funds from government bank accounts to recipients', the government will be able to reduce its costs of printing and mailing cheques.

Participation will be on a voluntary basis, and participants will receive quarterly and annual statements which will provide information on their benefits.

There are currently over 9 million recipients under the programs to be covered. It is estimated that eventually 40 per cent will participate in the direct deposit program. By reducing processing costs it is estimated that the program will reduce the government's costs by $7 million per year once participation targets have been achieved.

Canada Oil and Gas Lands Administration

The Canada Oil and Gas Lands Administration, an agency reporting jointly to the Minister of Energy, Mines and Resources and the Minister of Indian Affairs and Northern Development, is responsible for regulating oil and gas activity in areas of continuing federal responsibility. The agency's operating budget will be reduced by about 10 per cent, for savings of $1.5 million annually. The agency's environmental protection and safety mandate will not be affected.

B. Financing of the Unemployment Insurance Program

The Minister of Employment and Immigration recently announced a new labour force strategy for the 1990s which will be financed by changes to the Unemployment Insurance Act. It will be based upon consultation with the private sector to design programs to train Canadians and upgrade their skills so that they can better meet the demands of the quickly evolving labour market. Expenditures will not be reduced: the size of the unemployment insurance program will remain the same, but it will be a better program.

The labour force strategy and the related changes to the Unemployment Insurance Act are described in detail in the policy statement released by the Minister of Employment and Immigration. They are designed to achieve four goals:

- increase the private sector's role in training employees and assuring that training is more responsive to labour market trends;
- increase active training and re-employment measures for the unemployed by redirecting approximately 10 per cent of unemployment insurance expenditures now spent on passive income support;
- improve unemployment insurance benefits, in conformity with the Charter of Rights and Freedoms, to better respond to the needs of working parents and to extend unemployment insurance coverage to workers over age 65; and
- reduce work disincentives in the unemployment insurance program in a manner which recognizes the differing degrees of difficulty individuals face in finding new jobs in different parts of the country.

There is general agreement that a much stronger focus on training is needed so that Canadians have the skills they will need throughout their working lives in a rapidly changing world environment. The changes to the unemployment insurance program will make it possible to redirect approximately $1.3 billion to the labour force strategy, including improved equity measures.

The unemployment insurance program is currently financed on a tripartite basis: from employer and employee premiums, and from general government revenues raised by taxation and borrowing. The proportion of benefits paid by general government revenues has varied over the years. At present, general government revenues finance regionally extended benefits, benefits for self-employed fishermen that are in excess of the premiums they pay, and extended benefits paid to claimants undertaking approved training or participating in job-creation projects. The estimated cost of unemployment insurance expenditures paid by the government is about $2.9 billion out of a total of $12.6 billion for 1989.

From January 1, 1990, all unemployment insurance expenditures will be financed by premiums. The proposed change in financing will increase employers' costs, and will affect the premiums paid by employees, but is a necessary step in dealing with the fiscal situation and recognizes that the government is not in a financial position to contribute so long as it is running a continuing and substantial deficit. The government will continue to contribute to the financing of the program in difficult economic times when it is inappropriate to raise premiums and prudent to allow deficits to build in the unemployment insurance account. Following the 1981-1982 recession, large deficits were allowed to accumulate in the account as a result of the decision to maintain stability in the unemployment insurance premium rates. These deficits were eliminated gradually over time as the overall performance of the economy improved.

To provide for stability in the future and to cushion the impact of the change in financing, the premium rate for employees will be set at $2.25 per $100 of insurable earnings for 1990, 1991 and 1992. This rate is lower than the rate that would be required initially to reflect fully the fact that all unemployment insurance expenditures will now be financed by premiums.

For employees, the rate will be $2.25 per $100 of insurable earnings. (Maximum insurable earnings, which are closely related to average earnings, are estimated to be $635 a week or $33,020 a year in 1990.) The $2.25 rate is higher than the $1.95 rate for 1989 but lower than the $2.35 rate of the previous years.

The increase in premiums will cost a worker with maximum insurable earnings about $100 a year before tax. Since unemployment insurance contributions are tax creditable, the net (after tax) increase in premiums will be about $72.

The employers' premium rate will remain at 1.4 times the employees' rate. Hence, employers will pay $3.15 per $100 of insured earnings for the next three years, up from $2.73 in 1989 but below the previous $3.29 rate. Total premiums paid by employers are derived about 70 per cent from private sector employers and 30 per cent from public sector employers.

The financing changes will contribute $1.9 billion to deficit reduction in 1990-91, after taking into account the fact that unemployment insurance contributions are tax creditable and that the government also contributes to unemployment insurance as an employer.

C. Tax Measures

Strengthening the Tax Structure

Earlier sections of this document have described the crucial role of expenditure restraint in reducing the deficit over the past four years and in further deficit reduction over the fiscal planning period. Increases in the revenue share of GDP were also essential in achieving deficit reduction from 1984-85 to 1988-89, and some further increase in this share is a necessary part of achieving the debt and deficit goals of this fiscal plan.

By 1984, the income tax structure had become characterized by relatively high tax rates and narrow bases as a result of the introduction of a number of corporate and personal tax preferences. These reduced the predictability and stability of existing revenues and provided a weak footing on which to raise additional revenues.

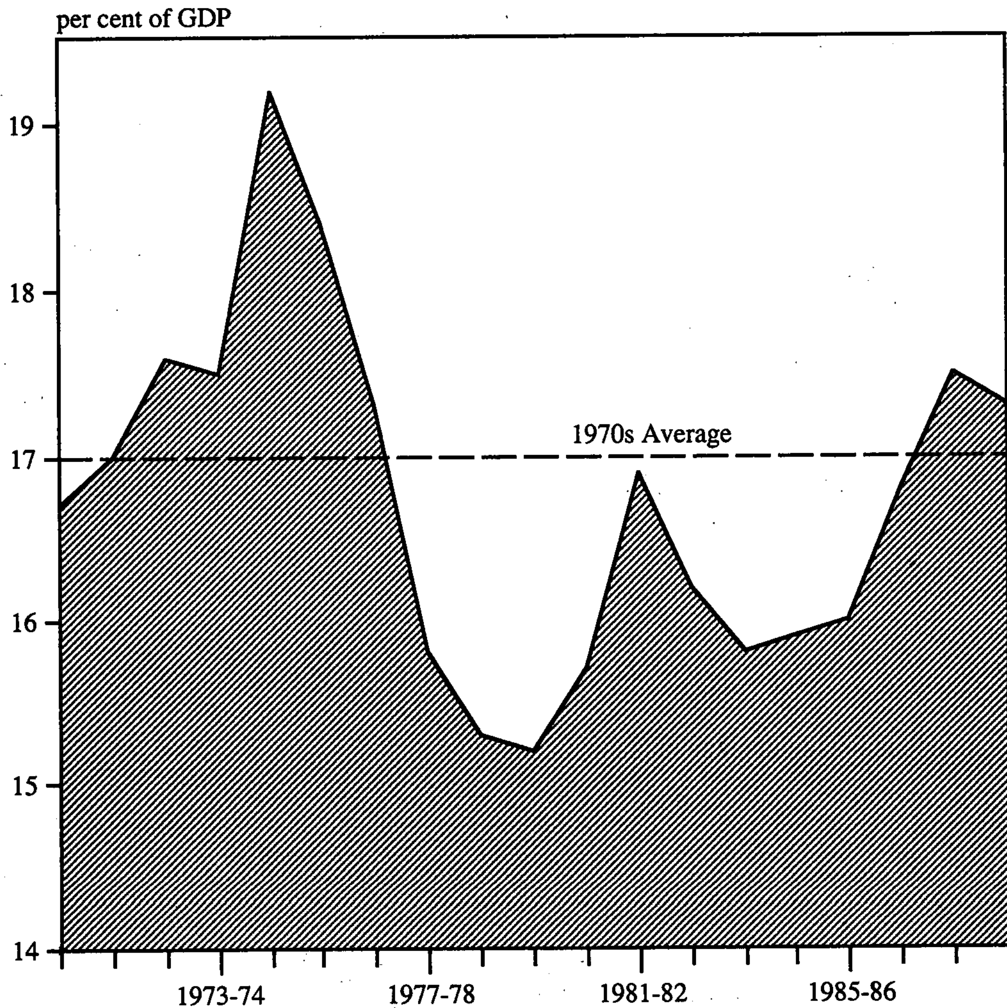
During the 1970s, the special deduction for manufacturing and processing income was introduced, the inventory allowance and investment tax credits were introduced, and a two-year write-off was provided for manufacturing machinery. In 1983, the ability to carry investment tax credits and non-capital losses forward and backward was substantially enhanced, and research and development incentives were modified and enriched. The cumulation of these changes significantly eroded the corporate tax base. The tax losses which often resulted from these measures, coupled with the actual losses which many corporations experienced during the 1981-82 recession, led to a large overhang of potential deductions and credits when corporate profits recovered after the recession.

Special personal income tax incentives and preferences were also introduced in the 1970s, including the investment income deduction, incentives for investment in rental housing, and other investment incentives. The base of the other major tax source, the federal sales tax, had also been subject to significant narrowing, most importantly with the removal of tax on clothing and footwear, and transit and transportation equipment. Substantial rate reductions in the 1970s were also important in reducing the yield of this tax.

These factors were among those contributing to the evolution of the ratio of revenues to GDP, up to 1984, as shown in Chart 6.

Chart 6

The Revenue Yield: Budgetary Revenues*



* Excludes the impact of the acceleration of remittances of personal income tax source deductions by large employers, the acceleration of quarterly personal income tax instalment payments and the acceleration of federal sales and excise tax payments. These are one–time increases and do not affect an individual's personal income tax or federal sales and excise tax liability.

The combination of high tax rates and a proliferation of preferences and exemptions contributed to major economic distortions by leading to investment decisions based on tax considerations rather than economic factors. As well, special preferences permitted some high-income individuals and profitable corporations to pay little or no tax. This situation threatened to undermine the perception of fairness that is fundamental to the effective operation of a self-assessment system.

Over the past four years steps have been taken to restore the integrity of the tax system through eliminating many special preferences and curbing opportunities for tax avoidance. The 1987 income tax reform lowered personal and corporate income tax rates, broadened the tax base, and reduced total personal income taxes while increasing total corporate income taxes and sales taxes. Broader tax bases with lower rates improve incentives for economically-efficient decisions and increase fairness. Lower rates reduce pressure both for tax avoidance domestically and for the shifting out of Canada of taxable income of companies operating both in Canada and abroad.

Broadening the tax base, lowering income tax rates, eliminating special preferences, and curbing opportunities for tax avoidance

In October 1984, a moratorium was imposed on "quick flips" under the scientific research tax credit, and the Department of National Revenue stopped providing advance rulings on limited partnerships and joint-venture financing.

The budget of May 1985 announced a number of measures to reduce or eliminate special preferences:

- it proposed a minimum tax regime for high-income individuals, which became effective at a federal-provincial rate of 25 per cent in the 1986 taxation year;
- it eliminated income-splitting among family members through the use of interest-free loans, a means of minimizing tax;
- it eliminated the Registered Home Ownership Savings Plan (RHOSP);
- it removed tax shelters based on investments in yachts, recreational vehicles and similar properties; and
- it terminated the Scientific Research Tax Credit, a special incentive which had been subject to severe abuse.

In the period following that budget, actions were taken to:

- stop so-called "carve-out" transactions in the oil and gas sector, whereby profitable corporations transferred resource income to corporations with losses or tax-exempt entities in order to avoid tax;
- prevent the use of trusts to market securities issued in such a way that income and capital returns to investors were distributed tax-free;
- end the use of partnerships in corporate takeovers to increase tax deductions through the so-called "partnership step-up" rules; and
- tighten rules so that pension plans could not avoid the limits on foreign property investments.

In the February 1986 budget, further changes to prevent erosion of the revenue base and to improve tax fairness were introduced. These included:

- the introduction of "at-risk" rules to restrict the tax-credit and business-loss claims of investors in limited partnerships to the amount of their investment;
- provisions to remove the tax advantage of salary deferral arrangements; and
- introduction of a refundable sales tax credit.

The general corporate tax restructuring measures in the February 1986 budget included the phase-out of the general investment tax credit and the removal of the inventory allowance. As well as providing a basis for staged tax rate reductions, these measures also reduced the opportunities for profitable corporations to pay little or no tax.

Subsequently, measures were introduced to:

- deny the tax-free treatment of intercorporate dividend transfers for certain categories of preferred shares designed to transfer unused tax losses to profitable corporations in order to shelter their income from tax;
- prevent the use of commercial trusts to avoid tax in a manner unintended by the law; and
- correct some of the competitive distortions inherent in the federal sales tax by broadening the base and moving the point of tax from the manufacturer to the wholesale level for a limited number of goods.

Income tax reform, in June 1987, provided for substantial further general base broadening. On the corporate side, this included:

- phased reduction in the extent of acceleration in capital cost allowances; and
- reduction in the reserves claimable by financial institutions.

In addition, a creditable capital tax was imposed on large deposit-taking institutions. Further rate reductions were provided, with the general corporate rate declining from the pre-1986 level of 36 per cent to 28 per cent.

On the personal income tax side, base broadening measures included:

- elimination of the $1,000 investment income deduction;
- increase in the inclusion rate for capital gains; and
- modification of the lifetime capital gains exemption.

The top marginal rate was reduced from 34 to 29 per cent, and marginal rates faced by most other taxpayers were also reduced.

In addition to these general measures, income tax reform included a number of further provisions to curb tax avoidance and the transfer of tax losses. The two major provisions were:

- the imposition of a tax on dividends on preferred shares issued by large corporations, in order to restrict use of such shares as a means of after-tax financing by non-taxable corporations; and

- the new General Anti-Avoidance Rule, which improved the ability of Revenue Canada to prevent artificial tax avoidance arrangements.

The February 1988 budget provided rules to tighten the associated corporation rules to prevent multiplication of entitlements to the small business deduction.

Finally, the present budget:

- constrains the ability of corporations to transfer the benefits of accelerated capital cost allowances through leasing;

- removes the possibility of revenue loss through 'rental' of dividends by taxable corporations; and

- imposes a new large corporations tax.

Sales tax reform will, in its turn, provide major economic gains, will improve the fairness of the tax system, and will yield a more stable revenue structure, through the application of lower rates to a much broader base.

Conclusion

The tax measures of the 1970s and early 1980s which reduced the tax base have been largely reversed since 1984. However, particularly in the corporate income tax area, the full effect of this reversal on taxes paid occurs only gradually due to the overhang of tax losses and other unused deductions and credits. A number of the specific measures noted above were designed to limit the extent to which losses can be transferred to benefit profitable corporations, and thus to contain base erosion. Further, by bringing depreciation for tax purposes closer into line with economic depreciation, tax reform provides both a more stable revenue base and an investment climate that is more responsive to economic factors as opposed to tax considerations.

Certain significant incentives and special provisions continue to reflect government priorities. These include the special low rate on the first $200,000 of annual business income of Canadian-controlled private corporations, the regional investment tax credits, capital cost allowances that still reflect some acceleration relative to economic depreciation, and generous treatment of research and development expenditures. On the personal income tax side, there are the special treatment of savings for retirement, and the lifetime capital gains exemption. These incentives serve well-defined objectives, including the commitment to greater regional equality in economic development, the need to encourage high domestic savings, and the desire to foster entrepreneurship and risk-taking.

The yield of the tax system relative to the economy has been restored to the level of the early 1970s, in considerable part through eliminating special preferences and broadening tax bases. Even with the increases proposed in this budget, key personal and corporate statutory rates are still significantly lower than they were prior to income tax reform. These lower rates are important both in limiting pressures for tax avoidance, and in maintaining incentives to engage in productive activity that will support economic growth, international competitiveness and job creation.

Income Tax Measures

Personal Income Tax

Additional Surtaxes on Individuals

The budget proposes to increase the federal surtax by 2 percentage points from 3 per cent to 5 per cent, effective July 1, 1989. An additional surtax of 3 per cent on high-income individuals is also proposed. The high-income surtax will be calculated on basic federal tax in excess of $15,000; it will affect taxpayers with incomes over about $70,000.

The general surtax increase will be effective July 1, 1989, so that the effective rate will be 4 per cent for the 1989 taxation year. Thereafter, the full 5 per cent will apply. All 13.5 million taxpayers will be affected.

The high-income surtax will also come into effect July 1, 1989, making the effective rate of the high-income surtax 1.5 per cent in 1989. The combined surtax rate on basic federal tax in excess of $15,000 will thus be 5.5 per cent in 1989. In subsequent years, the combined surtax rate on high-income individuals will be 8 per cent. About 335,000 taxpayers will be affected.

Table C-1

Federal Surtax Increase on Typical Taxpayers, 1990

	Single under 65		One-earner couple with two children under 19		Single 65 and over	
Income Level	Surtax Increase	Increase as a % of income	Surtax increase	Increase as a % of income	Surtax increase	Increase as a % of income
(dollars)		(per cent)	(dollars)	(per cent)	(dollars)	(per cent)
10,000	12	0.1	0	0.0	0	0.0
15,000	28	0.2	8	0.1	16	0.1
20,000	45	0.2	25	0.1	33	0.2
25,000	60	0.2	40	0.2	50	0.2
30,000	80	0.3	60	0.2	70	0.2
40,000	130	0.3	110	0.3	120	0.3
50,000	185	0.4	165	0.3	175	0.3
60,000	240	0.4	220	0.4	230	0.4
75,000	365	0.5	315	0.4	340	0.5
100,000	725	0.7	675	0.7	700	0.7
150,000	1,450	1.0	1,400	0.9	1,425	1.0
200,000	2,175	1.1	2,125	1.1	2,150	1.1

Note: Taxpayers under 65 are assumed to receive earned income and to claim standard credits. Taxpayers 65 and over are assumed to receive pension and/or investment income and to claim standard credits.

Annual Reporting of Accrued Investment Income

Annual reporting of income on compound debt obligations and certain other investment instruments is proposed.

Individuals holding compound debt obligations, deferred annuities and certain life insurance policies are at present required to report the accrued investment income on them at least every three years. The rules thus permit a deferral of tax on accrued income from these investments for up to three years.

Taxpayers may elect, however, to report the income from the investment annually. A taxpayer may therefore have different reporting periods for various investments. Taxpayers who hold more than one investment subject to these rules often find the lack of uniformity in reporting requirements confusing. Confusion is increased due to the fact that the transitional provisions, introduced in 1981 when these rules were introduced, exempt some investments from the three-year reporting rules and, in other cases, defer the application of the rules. This increases the number of different methods by which a taxpayer may be required to report investment income. As well, confusion has arisen because information slips reporting the accrued investment income have not been generally available to taxpayers.

In order to limit the deferral, to improve the reporting of investment income, and to reduce complexity, an annual reporting system is proposed, applicable to the types of investment currently subject to the three-year reporting rules. For such investments acquired after 1989, annual reporting will be required of income accrued on each anniversary date of the investment. For this purpose, an investment will be treated as having been acquired after 1989 if, after that year, the term of the investment has been extended or the investment has been materially changed.

To facilitate the introduction of annual reporting of accrued investment income, issuers of investments subject to the proposed rules, including compound-interest Canada Savings Bonds issued through the Bank of Canada, will be required to provide information slips (T-5 slips) annually to holders of the instruments showing the amount of interest accrued to each anniversary date of the investment.

This measure will increase revenues by an estimated $200 million for the 1991 taxation year, by $300 million for the 1992 taxation year, by very little in 1993, and by modest amounts thereafter.

Legal Expenses

Legal expenses incurred in obtaining a retiring allowance or pension benefit are to become a deductible expense.

Taxpayers are presently allowed to deduct legal expenses incurred in collecting salary or wages. No similar deduction is allowed for legal expenses to obtain retiring allowances (including any award for wrongful dismissal) or pension benefits.

It is proposed to allow a deduction, effective for the 1986 and subsequent taxation years, for legal expenses paid after 1985 for the purpose of obtaining a retiring allowance or pension benefit. The 1986 effective date will permit taxpayers to request, by letter addressed to their district taxation office, that their return for the relevant year be reassessed within the normal three-year period for reassessment under the Income Tax Act. The amount of the deduction in any year will be limited to the amount of the pension income or retiring allowance received

in the year after deducting any related transfer to a registered retirement savings plan or registered pension plan. Any expenses not deducted because of this limitation in one year may be carried forward for deduction in any of the seven following years with the same limitations.

Tax Rate on Income not Attributed to Provinces

The tax rate on income not attributed to provinces is being brought into line with provincial tax rates.

Canadian residents living abroad and certain non-resident individuals now pay a special federal tax of 47 per cent of the regular federal income tax. This provision ensures that the total income tax burden on these individuals is comparable to that paid by individuals living in Canada who are liable for provincial as well as federal income tax. To bring this special tax more in line with current provincial tax rates, it is proposed that the special federal tax be raised to 52 per cent, effective July 1, 1989. Thus, for 1989 the effective special tax rate for income not attributed to a province will be 49.5 per cent. The rate of 52 per cent approximates the average prevailing rate of provincial income taxes.

The increase in the special tax rate will increase federal revenues by about $2 million in 1989 and $4 million in each subsequent year.

Deduction for Part-Time Attendant Care Expenses for the Working-Disabled

The working-disabled can incur a major expense in the cost of unreimbursed care by a part-time attendant required to enable the individual to work. This additional expense is a barrier to participation in the labour force.

An individual certified as having a severe and prolonged impairment will, effective January 1, 1989, be able to deduct the costs of care provided by a part-time attendant who is an unrelated adult person. Deductions will be limited to two-thirds of eligible income up to $5,000. "Eligible income" means income from employment or self-employment, a training allowance under the National Training Act, or a grant for research or similar work. This measure will lower the employment barrier and create greater equity between able-bodied earners and those who incur additional expenses owing to a disability.

The federal revenue cost is estimated to be $5 million annually.

Corporate Income Tax

Large Corporations Tax and Modified Corporate Surtax

The budget proposes to levy additional taxes on the corporate sector to help reduce the federal deficit. The source of these revenues will be a new tax, the Large Corporations Tax. The tax will be levied at a rate of 0.175 per cent on capital in excess of $10 million employed in Canada by corporations. The Large Corporations Tax will ensure that all large corporations pay federal taxes and thus contribute to deficit reduction. The new tax will be creditable against the existing 3 per cent surtax, so that a corporation will, in effect, be subject to the greater of the two taxes.

Smaller businesses will not be subject to the new tax. However, the existing 3-per-cent surtax will be modified to obtain additional revenues from smaller corporations that are in a profitable position.

In the first full year of application, the Large Corporations Tax and modifications to the surtax are expected to increase federal revenue by about $965 million. Revenues raised by these measures, in combination with the existing surtax, are equivalent to the revenues which would be raised by a 10-per-cent corporate surtax. The 3,600 largest corporations, accounting for about three-quarters of total corporate capital employed in Canada, will be subject to the new tax.

Tax on Non-Financial Corporations: Summary

The Large Corporations Tax will be similar to the capital taxes that exist in a number of provinces. The tax base of a non-financial corporation will generally be determined as follows:

Share Capital

plus: Contributed Surplus

plus: Retained Earnings and Other Surpluses

plus: Reserve Funds

plus: Loans and Advances

equals: Capital

less: Allowance for Investments in Other Corporations

equals: Taxable Capital

times: Percentage of Capital Employed in Canada

equals: Taxable Capital Employed in Canada

The tax rate of 0.175 per cent will be applied to taxable capital employed in Canada in excess of a $10 million capital deduction (shared among related corporations) to determine tax payable.

The Large Corporations Tax payable will be creditable against corporate surtax liability in respect of Canadian source income. Unused credits may be carried forward seven years and back three years to be applied against the Canadian portion of surtax payable for those years.

Tax on Non-Financial Corporations: Detailed Provisions

The tax base will be calculated using the accounts of a corporation determined in accordance with generally-accepted accounting principles and presented on an unconsolidated basis. Current year-end balances will be used.

This base will include the corporation's shareholders' equity, surpluses, and reserves, as well as loans and advances to the corporation, and certain other indebtedness.

Surpluses will include earned surpluses and capital, appraisal and other surpluses. Current income taxes paid or payable to all jurisdictions and dividends paid by the corporation before the end of the year will be excluded. However, deferred income tax reserves and contingent, investment, inventory and similar reserves (other than those reserves deducted under Part I of the Income Tax Act) will be included in computing a corporation's capital.

All loans and advances to a corporation, as well as any other indebtedness that is represented by bonds, debentures, mortgages or other securities of the corporation, will be included in computing its capital. Other indebtedness of the corporation, including accounts payable, that has been outstanding for more than 365 days prior to the end of the corporation's taxation year will also be included in its capital.

An investment allowance will be provided to avoid double taxation where the capital of one corporation is not employed directly by it but, instead, is invested in another corporation. In general, shares of other corporations, loans and advances to other corporations, and bonds, debentures, mortgages and other securities issued by other corporations, will constitute eligible investments and the corporation will be able to deduct the cost of such investments in computing its taxable capital. No investment allowance will be provided in respect of loans to, deposits with, or any other investments in financial institutions (other than shares or long-term debt of the institution), since such investments are not included in the capital of the institution.

Only that portion of a corporation's taxable capital (after deduction of any investment allowance to which it is entitled) that may be regarded as being employed in Canada will be subject to this new tax. The existing income allocation formula in Part IV of the Income Tax Regulations will be used as a basis for determining the portion of a corporation's taxable capital that is employed in Canada.

Non-resident corporations having a permanent establishment in Canada will compute capital employed in Canada on the basis of their Canadian assets (other than investments that would qualify for an investment allowance of a corporation resident in Canada and reduced by indebtedness that would not be part of the capital of a resident corporation).

All corporations will be entitled to a $10 million basic capital deduction from taxable capital employed in Canada. This deduction will limit the application of the tax to larger corporations. The $10 million deduction will be required to be allocated among the members of a related group of corporations.

The rate of tax will be at an annual rate of 0.175 per cent of a corporation's tax base. The tax will apply after June 1989. For a taxation year commencing before July 1989, the amount of tax payable will be prorated on the basis of the portion of the year occurring after June 1989.

The tax will be payable in monthly instalments which will be based on the lesser of the corporation's taxable capital for the current year and that for its immediately preceding year. Instalments for the first two months of a year may be based on the corporation's taxable capital for the second preceding year. Payment of any balance of tax owing at the end of a year will be due either two or three months after the end of the corporation's taxation year, the same date on which the liability for the balance of the regular corporate tax under Part I is due.

No payments of tax will be required to be made before 1990. For corporations with a taxation year ending after June 1989 and before 1990, the tax payable for the year will be due on the later of January 1, 1990 and the date on which any balance owing in respect of Part I tax for the year is due. For taxation years beginning before 1990 and ending after 1989, instalment payments will be required to be made for each month after 1989 and will be based on the corporation's liability for Large Corporations Tax for the year divided by the number of months in the year after 1989.

The instalment base of a corporation for its first taxation year ending after 1989 will be determined by reference to its taxable capital at the end of its first and second preceding taxation years. For the purpose of this transitional provision, a corporation's portion of the $10 million capital deduction for the current year (as allocated among members of a related group) will be used in determining its taxable capital for each of the two immediately preceding years.

Application of Tax to Financial Institutions

The Large Corporations Tax will also be levied on financial institutions, including insurance corporations. The form of the tax as it will apply to financial institutions and insurance companies reflects the dual uses of capital in their business. Such firms operate as financial intermediaries for which a financial capital base is required, and generally also use capital to finance physical assets that are used in their intermediation business and/or for lease or rent. The new tax will apply to both of these uses of capital by a financial institution. The financial capital used to

support the institution's intermediation will be taxed, as will the capital used to finance physical assets owned by the financial institution. This recognizes that capital may be used directly by the institution for its own use or for lease, or that the funds may be lent to another firm and taxed in its hands. This proposed treatment ensures the same total tax is paid in either situation.

For financial institutions (as currently defined under Part VI of the Income Tax Act and other prescribed financial corporations) and insurers, capital will include the financial capital employed by the institution in supporting its financial activities. The financial capital employed by these institutions will be similar to capital for Part VI purposes, and generally consists of the share capital, retained earnings, surpluses, reserves (other than those which are deducted for tax purposes), and outstanding long-term debt of the institution at the end of its taxation year. Deposits and similar liabilities, and policy reserves (deductible for income tax purposes) in respect of insurance policies will not be included in financial capital. Financial capital will be reduced by an investment allowance as described below.

The portion of the financial capital that will be considered to be employed in Canada will be determined based on the nature of the business of the financial institution. For deposit- taking institutions, it will be determined as the proportion of financial capital that Canadian assets are to total assets, in the same manner currently used for determining the tax liability under Part VI of the Act. For resident life insurance companies, the proportion of financial capital employed in Canada will be determined with reference to the proportion of Canadian Reserve Liabilities to Total Reserve Liabilities. For resident insurance companies that do not carry on a life insurance business in Canada, the proportion will be determined using net premiums from insuring Canadian risks to total net premiums. For all non-resident insurance companies, financial capital employed in Canada will be determined with respect to the capital used in the firm's Canadian business. For other financial institutions, the proportion will be determined using Canadian assets to total assets.

In addition to their financial capital, financial institutions and insurance companies will also be subject to tax in respect of capital that is used to finance their real property and tangible personal property used in Canada.

An investment allowance similar to the one granted under Part VI will be provided for investments in related Canadian financial institutions and insurance companies. An investment allowance will not be provided for investments in other corporations.

Modifications to Part VI Tax

As a complement to the application of the new tax on financial institutions, changes to the existing creditable capital tax on financial institutions (Part VI) will be implemented. The investment allowance for capital stock holdings (other than in related Canadian financial institutions) will be eliminated. Current year-end balances will be used for the purposes of the capital base calculation.

Concurrently, monthly instalment payments will be required so that payments for the existing capital tax have similar instalment schedules. These changes will be effective for the 1990 and subsequent taxation years.

Modifications to Surtax and Crediting of Large Corporations Tax Against Surtax

A 3 per cent surtax on federal corporate income tax payable has been in place since January 1, 1987. After June 1989, the surtax will be calculated by reference to federal corporate tax payable before the small business deduction and the manufacturing and processing deduction, and without allowance for tax credited to a private corporation's refundable dividend tax on hand. For a taxation year which includes July 1, 1989, the surtax calculation will be prorated on the basis of the portion of the year before and after that date.

The new Large Corporations Tax payable by a corporation will not be deductible in computing its income for a taxation year, but may be credited against that portion of its surtax payable under Part I for the year that relates to its Canadian income. For this purpose, the Canadian element of a corporation's surtax liability will be determined on the same basis used in calculating its capital employed in Canada.

The amount by which a corporation's Large Corporations Tax for a year exceeds the Canadian portion of its surtax for the year may be carried over and applied against any uncredited amounts of the Canadian portion of its surtax for any of its three previous or seven subsequent years. However, Large Corporations Tax may only be credited against surtax with respect to income earned after June 1989, determined on a pro rata basis for taxation years commencing before July 1, 1989.

Leasing

In many cases, leasing constitutes a financing alternative to conventional purchasing and borrowing. For taxpayers who are not currently taxable, leasing may provide a form of after-tax financing. The budget is proposing changes to leasing rules to eliminate these after-tax financing advantages, while at the same time not interfering with the availability of leasing for operational and other non-tax reasons. This will be accomplished by restricting the capital cost allowance deductible by a lessor with respect to leased property.

The tax advantages of leasing arise because the capital cost allowance (CCA) for leased property may exceed the actual depreciation, particularly in the early years of a lease. In this situation, leasing allows a non-taxpaying lessee to trade accelerated CCA which it cannot use to a taxpaying lessor in return for reduced rental payments. For the lessor, the accelerated write-offs defer taxes payable on other income – a benefit that can extend indefinitely if the asset base of the lessor is expanding. While a lower cost of financing can be achieved by leasing in these circumstances, the savings are generated at the expense of government tax revenues.

The government has made a number of changes to the Income Tax Act over the last five years to curtail opportunities for after-tax financing. For example, the rules with respect to limited partnerships, preferred shares and carveouts have been amended to reduce the tax advantages associated with such arrangements. Consistent with these changes, the budget proposes to alter the tax treatment of certain leases for the purposes of the CCA provisions. These changes reduce the tax advantages of leasing for taxpayers who are tax-exempt or who are currently not taxable. The changes do not, however, alter the relative treatment of leased assets and purchased assets where there is no benefit from transferring deductions. In particular, special rules are provided to ensure that the full benefit of capital cost allowance remains available to taxpayers using the leased property in the course of their businesses.

A moratorium on sale and leaseback transactions by governments and their emanations (federal, provincial and territorial) was announced in June 1988. The leasing measures announced in the budget resolve the problems which led to the moratorium in respect of assets to which they apply. The federal government will continue discussions with the provincial and territorial governments on sale and leaseback transactions involving other assets, such as buildings, which are exempt from the proposed leasing rules.

Proposed Rules: Details

Under the proposed rules, a taxpayer who leases property, other than exempt property, to another person for more than one year will have the capital cost allowance on such property restricted. The amount of capital cost allowance that may be claimed in a year by a lessor in respect of leased property will be limited to the amount that would have been a repayment of principal had the lease been a loan and had the rental payments been blended payments of principal and interest.

For the purposes of this calculation, the amount of the loan will be the fair market value of the leased property at the time the lease is entered into and the rental payments received by the lessor will be treated as blended payments of principal and interest calculated on the basis of a prescribed rate. As well, the amount of CCA that may be deducted in respect of any particular leased property will be limited, in the aggregate, to the total depreciation that could have been claimed in respect of the property had the new rules not applied. For these purposes, the lessor will be required to depreciate the leased property in a separate class.

If the property is disposed of at the end of the lease, the normal rules for recapture of depreciation and terminal losses will apply. However, where the property is retained and re-leased by the lessor, the maximum capital cost allowance deductible by the lessor will continue to be calculated as described above, except that the principal and interest components of the rental stream will be based upon a loan in a principal amount equal to the fair market value of the leased property at the time of the subsequent lease and at the prevailing prescribed interest rate at that time. This process will continue until the property is disposed of, at which time the normal rules for recapture and terminal losses will apply. The application of the new rules is illustrated in the example below.

These rules will not generally alter the tax treatment of lessees. They will continue to be able to deduct the full amount of rental payments in computing income from a business or property, except where the election described below is filed. The proposals allow for a special election, to be made jointly by the lessor and lessee, the effect of which will be to consider the lessee, for the purpose of calculating the lessee's income only, to have purchased the leased asset for the duration of the lease and to have financed the purchase by way of a loan. This will have the effect of allowing the lessee to claim CCA on the asset during the term of the lease, thus enjoying the benefit of any CCA acceleration. In addition, where the election is filed, the lessee will be entitled to deduct the notional interest portion of the rental payments – that portion to be determined in a manner similar to that described above for lessors. Where the election is made, the lessee will, at the expiration or other termination of the lease, be treated as having disposed of the asset for an amount equal to the remaining notional principal outstanding on the loan. The normal rules relating to recapture and terminal losses will apply to the lessee as a result of this deemed disposition. Consequential rules will apply where lessors or lessees sell or assign their rights under a lease. The treatment of the lessor will not be affected by the election.

The new regime will not apply to assets which are commonly leased for operational purposes and for which CCA reasonably approximates actual depreciation. Based upon these considerations, leases of computers, office equipment and furniture having a value of up to $1 million each, residential furniture and appliances, buildings, automobiles and light trucks will be exempt from these rules. The rules will not, of course, apply in respect of the licensing of films, video tapes, patents, and other intangible properties.

The prescribed interest rate that will be applicable under the new rules for a lease entered into in a calendar quarter will be the rate which is one percentage point greater than the long term (over 10 years) Government of Canada bond rate for the last Wednesday of the first month of the preceding quarter. The long-term Government of Canada bond rates are published monthly in the *Bank of Canada Review*. For the second quarter of 1989, the prescribed rate will be 11.20 per cent.

These proposals are generally effective for leases of property entered into after April 26, 1989, other than leases pursuant to an agreement in writing entered into on or before that date under which the lessee has the right to require the lease of the property. A lease which undergoes a material change after April 26, 1989, will be considered to be a new lease and, therefore, subject to these rules.

Example

The following example illustrates the application of the new rules. It is assumed that an asset with a fair market value of $10,000 is leased for five years, the prescribed interest rate is 10 per cent, and the annual rent is $1,314. The CCA rate that would otherwise be allowable is 25 per cent, on a diminishing balance basis, subject to the half-year convention. The following table illustrates the computation of the amounts of CCA allowable to the lessor under the new rules:

Table C-2

Year	Actual lease payment	Notional interest	CCA allowable	Undepreciated capital cost
		(dollars)		
				10,000
1	1,314	1,000	314	9,686
2	1,314	969	345	9,341
3	1,314	934	380	8,961
4	1,314	896	418	8,543
5	1,314	854	460	8,083
Total	6,570	4,653	1,917	

The lessee has the choice of either deducting the entire lease payment of $1,314, as is currently the case, or jointly electing with the lessor to treat the lease as a loan and purchase for the five-year lease term. In the latter situation, the lessee will be able to deduct the interest expenses illustrated above and the normal CCA on the asset as follows:

Table C-3

Year	Actual lease payment	Notional interest	CCA allowable	Undepreciated capital cost
		(dollars)		
				10,000
1	1,314	1,000	1,250	8,750
2	1,314	969	2,188	6,562
3	1,314	934	1,641	4,921
4	1,314	896	1,230	3,691
5	1,314	854	923	2,768
Total	6,570	4,653	7,232	

At the end of the five-year term, the lessee will be treated as having disposed of the asset for an amount equal to the remaining notional principal – $8,083 in this example (see Table C-2). As a result, the lessee will be subject to recapture of depreciation on the amount of $5,315 ($8,083 – $2,768). Thus, the total deduction allowed to the lessee with respect to the property will be $6,570 – that is, $11,885

(interest of $4,653 and CCA of $7,232) less depreciation recapture of $5,315. The $6,570 deduction is equal to the total payments over the five-year term of the lease.

Draft legislation and explanatory notes to implement the new leasing rules are provided in a separate press release issued by the Minister of Finance on April 27, 1989.

Preferred Share Dividend Tax Deduction

As part of the 1987 tax reform, legislation was introduced to impose a special tax on dividends paid after 1987 on taxable preferred shares. This share-issuer tax is imposed under Part VI.1 of the Income Tax Act. To enable taxpaying corporations to recover this tax against corporate income taxes payable, an offset mechanism is provided in the form of a deduction in computing taxable income equal to 5/2 of the Part VI.1 taxes payable. The 5/2 multiple provides an exact offset in situations where the combined federal-provincial corporate income tax rate is 40 per cent.

Combined corporate tax rates for large corporations, however, now generally exceed 40 per cent. For example, the rate that applies to a public corporation with all of its income taxable in Ontario is currently about 44 1/2 per cent. The difference between these rates and the assumed rate of 40 per cent provides an unintended benefit. In this example, under the existing rule, a corporation taxable at a 44 1/2 per cent combined corporate tax rate would reduce its Part I income tax by $44.50 for every $40 of Part VI.1 tax paid.

To ensure that the deduction does not provide a greater offset for the share-issuer tax than is appropriate, it is proposed to reduce the deduction from 5/2 of the Part VI.1 taxes payable to 9/4 for dividends paid after 1989. Dividends paid after 1989 and during a corporation's taxation year that straddles December 31, 1989, will be subject to the 9/4 deduction only to the extent that the amount of such dividends exceeds the corporation's dividend allowance for that year. The 9/4 deduction assumes a combined federal-provincial rate of 44.44 per cent which more accurately reflects existing combined federal-provincial corporate tax rates. This deduction ratio will be reviewed periodically to ensure it is kept in line with combined federal-provincial corporate tax rates.

The better matching of the dividend tax paid with the offsetting deduction in computing taxable income will result in a small revenue increase.

Corporate Tax Payment

Proposed amendments will require receipt of instalments and other corporate tax payments by Revenue Canada by the due date.

Corporations are required to remit tax payments by the last day of each month. Payments are considered to be received by the Receiver General on the day they are mailed, if sent by first class mail or its equivalent. The government may therefore not actually receive the payments until several days after their due date.

Accordingly, the budget proposes that corporate instalments and other corporate tax payments due after 1989 be considered to have been received on time only if received by the due date. Payments will be considered to have been received by Revenue Canada at the time they are delivered to any district or regional office of Revenue Canada or deposited to the account of Her Majesty at any financial institution belonging to the Canadian Payments Association. Corporate tax payments due after 1989 and not received by Revenue Canada by the due date will be subject to interest charges for late or deficient instalments of tax. This measure is similar to the February 1987 budget measure requiring receipt by Revenue Canada of source deductions (withholdings in respect of income taxes, Canada Pension Plan contributions and unemployment insurance premiums made by employers from employee remuneration) by the due date for the remittance of the withholdings, and is part of the government's commitment to efficient cash management.

This measure will result in a one-time increase in revenues of $350 million in fiscal year 1989-90 and continuing public debt charge savings thereafter. There is no impact on corporate income tax liabilities.

One-Year Extension in Reassessment Period for Corporations Other Than CCPCs

Under the Income Tax Act, the period that Revenue Canada, Taxation is allowed to carry out its audits with respect to a taxpayer's taxation year and issue reassessments is generally limited to three years from the date of mailing of the original assessment or notification that no tax is payable for that year. In the case of large corporations, the massive amount of data to be reviewed in a tax audit and the complexity of the issues involved often make it difficult, if not impossible, for Revenue Canada, Taxation to complete a thorough audit within the three-year period. It is therefore proposed that this period be extended to four years for corporations that were not Canadian-controlled private corporations (CCPCs) at the time of issue of the original assessment or notification. The period will remain three years for other taxpayers including individuals.

This extension should preserve about $200 million in tax revenues that might otherwise be lost each year. The extension will apply with respect to notices of reassessment issued after April 27, 1990. This ensures that taxation years which are presently statute-barred are not affected.

Other

Threshold for Accelerated Remittances of Source Deductions

The threshold for accelerated remittances of employee source deductions is being modified to reduce the administrative burden on medium-sized employers.

The rules for the remittance to Revenue Canada of source deductions by employers are set out in the Income Tax Regulations. Source deductions comprise the amounts withheld from employees' remuneration on account of income taxes, Canada Pension Plan contributions and unemployment insurance premiums.

At present, employers with average monthly remittances of source deductions of $15,000 or more, based on the employer's T4 Summary filed in the previous year, are required to remit these funds up to twice monthly: on the 25th day of a month for amounts withheld from employee remuneration paid in the first 15 days of the month, and on the 10th of the following month for amounts withheld in the remainder of the month. The T4 Summary is a document which is required to be filed by an employer by the end of February each year indicating the employer's payroll data for the preceding calendar year. Accordingly, an employer's liability to remit source deductions twice-monthly in 1989 will be determined on the basis of the T4 Summary filed by the employer by the end of February 1988, relating to deductions made in the 1987 calendar year.

Amendments last year provided for an acceleration of remittances for all those employers at or above the $15,000 threshold. Starting in January 1990, such employers would be required to remit up to four times a month, depending on the number of the employer's pay days in the month. For remuneration paid to employees during each of the following periods – from the 1st to 7th, 8th to 14th, 15th to 21st, and 22nd to the last day of the month – remittances would be due three working days following the last day in the period. This latter measure is often referred to as the "payday remittance requirement", as it would require employers subject to the measure to remit source deductions within three days of the end of the period in which employee remuneration was paid.

The accelerated remittance requirements are an important aspect of the government's cash management program. The government is, however, concerned that the payday remittance requirement may be unduly burdensome for some medium-sized employers. Accordingly, it is proposed that the payday remittance requirement, when it comes into force in 1990, apply only to employers with average monthly remittances of $50,000 or more. The approximately 36,000 employers with average monthly remittances of $15,000 to $49,999 will continue to be required to remit only up to twice monthly. Employers with average monthly remittances under $15,000 will continue to be required to remit on the 15th day of the month following the month in which the source deductions are made.

For the purposes of these thresholds, the combined total of the average monthly withholdings of all employer's accounts with Revenue Canada, Taxation will be taken into account. Similarly, the various employer accounts of associated corporations will continue to be combined for this purpose.

Regulations under the Canada Pension Plan and Unemployment Insurance Act will be amended to ensure that the relevant deductions thereunder will be required to be remitted on the same basis.

This measure will result in reduced revenues of $80 million for the 1990 taxation year. There is no impact on individuals' liability for personal income tax, or contributions to the Canada Pension Plan or unemployment insurance.

Dispositions by Non-Residents

Measures are proposed to assure collection of non-residents' tax payable on capital gains arising on the sale of property.

A non-resident is liable to pay income tax on capital gains realized on the disposition of Canadian real estate and certain other taxable Canadian properties. The Income Tax Act sets out a withholding tax procedure whereby a purchaser of such properties is required to withhold amounts from the purchase price on account of the non-resident's tax liability.

A non-resident may, however, obtain a certificate for a proposed disposition, the effect of which is to negate the purchaser's obligation to withhold tax. In order to obtain the certificate, the non-resident either must pay 33 1/3 per cent (30 per cent before 1990) of the estimated amount of the capital gain on the proposed disposition or provide security acceptable to the minister. The Act also provides a similar rule for actual dispositions.

Where a certificate has not been issued, the purchaser of the property is required to withhold, on behalf of the non-resident vendor, 15 per cent of the total purchase price. Where a certificate has been issued and the proceeds of disposition of the property exceed the amount fixed by that certificate, the purchaser is required to withhold an amount equal to the lesser of 15 per cent of the cost to the purchaser of the property and 33 1/3 per cent of the excess.

The difference between 15 per cent of the purchase price and 33 1/3 per cent of the capital gain can, depending upon the non-resident's adjusted cost base of the property, result in a withholding obligation that is less than the non-resident's actual liability for tax. Therefore, it is proposed to eliminate the reduced 15 per cent withholding tax rate on dispositions of taxable Canadian properties by a non-resident. When no certificate has been issued, withholding tax of 30 per cent of the purchase price will be required. This change is effective for dispositions occurring after the budget date; the rate will increase to 33 1/3 per cent for dispositions after 1989. Should the amount withheld exceed the actual tax liability, a non-resident may file a tax return in order to obtain a refund.

Securities Lending

Securities lending arrangements involve a loan of shares, bonds, or other securities in order to facilitate completion of a sale where certificates representing the securities sold are not otherwise readily available. Securities lending is an essential component of the short-sale market in Canada and is important in maintaining the liquidity of Canadian securities markets. However, transfer by the holder of a security pursuant to a loan agreement may technically be considered a disposition of the security for the purposes of the Income Tax Act. Similarly, an amount received by the lender of a share as compensation for a taxable dividend paid on the share may not be considered a taxable dividend for the purposes of the Act. As a result, a number of inappropriate tax consequences may result to lenders under such agreements and possibly reduce their willingness to loan securities.

Accordingly, amendments to the Income Tax Act are proposed to ensure that a loan of securities will not be a disposition for purposes of the Act and that amounts received from or by a securities dealer as compensation for taxable dividends paid on shares of a public Canadian corporation will be considered as taxable dividends for purposes of the Act. The person making such a payment will, however, not be entitled to deduct the payment in computing income under the Act. These amendments are effective with respect to transfers and payments made after April 26, 1989, except for the disallowance in computing income of payments made as compensation for taxable dividends, which will be effective after May 1989. This will provide persons making such payments a reasonable period to take this change into account.

Draft legislation and explanatory notes to implement this proposal are provided in a separate press release issued by the Minister of Finance on April 27, 1989.

Dividend Rentals

Dividend rentals involve the transfer of the right to receive a dividend on a share without also transferring all of the risk of loss and opportunity for gain. Under a typical dividend rental arrangement, a taxable corporation that normally would invest in interest-yielding short-term debt would instead borrow or purchase for a short period a share scheduled to pay a dividend. After receipt of the dividend, the share would be returned, together with a fee for its use, to the original owner whose tax circumstances are such as to be indifferent to the form of payment. The arrangement is such that the purchasing corporation is not at risk as to the value of the share; however, the corporation will receive a higher after-tax rate of return since the dividend will generally be received tax free.

These arrangements represent an abuse of the tax system; the return to all parties to the arrangement is subsidized by the forgone tax revenues that would have been collected if the investor had received interest or other income rather than a tax-free dividend on the rented share. Accordingly, it is proposed to deny dividend tax treatment for dividends received after April 1989 as part of an arrangement, the principal purpose of which is to enable a person to receive a dividend on a share

without bearing and enjoying the risk of loss and opportunity for gain on the share. This will remove the tax incentive for such arrangements and prevent the potentially significant erosion of tax revenues.

Draft legislation and explanatory notes to implement this proposal are provided in a separate press release issued by the Minister of Finance on April 27, 1989.

Increase in Interest Rate on Overdue Taxes and Tax Refunds

Higher interest rates are to be charged to encourage prompt payment of taxes and instalments. The rate of interest paid to recipients of refunds will also be increased.

Interest is paid on refunds of overpayments of income tax and charged on overdue income tax payments. The Income Tax Regulations provide that the rate of such interest is determined each quarter of the year by reference to the yield of 90-day Canada Treasury bills. The current rate is 12 per cent.

One of the principal purposes of charging interest on overdue income tax payments is to ensure prompt payment. However, the interest rate charged is lower than the rate that taxpayers generally pay for borrowed money. Hence, it is not an adequate deterrent to late payment and is considered to have contributed significantly to the increase in unpaid taxes in recent years. Accounts receivable are rising continuously; the balance outstanding increased from $3.2 billion at March 31, 1987, to $3.9 billion at March 31, 1988, and $4.5 billion at March 31, 1989.

The formula in the Regulations for determining the rate of interest for unpaid taxes and tax refunds is proposed to be amended so that the rate for each quarter will be two percentage points higher than it would have been under the current formula. The increase will be effective October 1, 1989. After this date, the prescribed interest rate during a calendar quarter will be the average rate on 90-day Treasury bills sold during the first month of the preceding quarter, rounded up to the nearest percentage point, plus 2 percentage points.

The new higher rate will apply with respect to insufficient instalment payments, overdue income tax payments, unpaid employee source deductions and other amounts withheld at source, unpaid Canada Pension Plan contributions, and unpaid unemployment insurance premiums. It will also apply to refunds of overpayments of income tax, Canada Pension Plan contributions, and unemployment insurance premiums. This increase in the interest rate will not apply for other purposes such as determining the taxable benefit to employees and shareholders from interest-free and low-interest loans.

The added incentive for prompt payment is expected to reverse the recent trend and cause tax accounts receivable to decline. As well, the higher interest rate charged will raise net interest revenues by about $60 million.

Sales and Excise Tax Measures

Measures Pending Sales Tax Reform

Federal Sales Tax Rate Increases

The increase in rates of sales tax and effective dates will be as follows:

- construction materials and equipment for buildings: 8 per cent to 9 per cent, January 1, 1990;
- alcoholic beverages and tobacco products: 18 per cent to 19 per cent, April 28, 1989;
- telecommunication services and programming services: 10 per cent to 11 per cent, June 1, 1989; and
- all other taxable goods: 12 per cent to 13.5 per cent, June 1, 1989.

The longer period before the rate increase for construction materials is to accommodate the greater number of fixed-price contracts in this sector.

The additional revenues raised through these measures will be replaced by the new sales tax to be implemented on January 1, 1991.

Increase in Refundable Sales Tax Credit

The federal sales tax credit will be increased from $70 to $100 per adult in 1989 and to $140 in 1990 as part of the package of changes to the federal sales tax. The credit for each dependent child under age 19 will be increased from $35 to $50 in 1989 and to $70 in 1990.

In 1990, the income threshold at which the credit starts to be reduced will be increased to $18,000 from the present $16,000. The credit will continue to be reduced by 5 per cent of net family income above the threshold. A family of two adults and two children under age 19 will thus receive a maximum credit of $300 in 1989 and $420 in 1990.

These increases, which more than compensate for increases in the federal sales tax rates for individuals and families at the threshold level of income, represent a first step to the new refundable sales tax credit which will accompany sales tax reform.

Table C-4

Benefits from the Refundable Sales Tax Credit

Income Level	Single			Family of four[1]		
	1988	1989	1990	1988	1989	1990
	(dollars)					
10,000	70	100	140	210	300	420
12,000	70	100	140	210	300	420
14,000	70	100	140	210	300	420
16,000	70	100	140	210	300	420
18,000	0	0	140	110	200	420
20,000	0	0	40	10	100	320
22,000	0	0	0	0	0	220
24,000	0	0	0	0	0	120
26,000	0	0	0	0	0	20

[1] Family is composed of two adults and two children under age 19.

Withdrawal of Previously Proposed Interim Federal Sales Tax Measures

Interim changes to existing federal sales tax legislation that were planned pending the introduction of the new sales tax on January 1, 1991, will not be implemented.

The government proposed in the February 1988 budget to introduce three interim measures pending the implementation of a new, more stable and efficient sales tax. These measures were intended to counter the threatened erosion of sales tax revenues through the increasing creation of marketing and distribution companies and to address some of the most glaring anomalies of the existing manufacturers' sales tax.

The first proposal concerned the treatment of marketing and distribution costs. The second shifted the point of tax from the wholesale level back to the manufacturers level for a selected range of goods, including pet foods, candy and confectionery, microwave ovens, televisions and video recorders and players. The third revised the qualifying criteria and compliance procedures for wholesaler licences. It is now not reasonable to introduce these changes, given the additional compliance and administrative burden that would be entailed and the short period before introduction of the new tax.

The revenue shortfall from the 12-per-cent federal sales tax as a result of not proceeding with the measure relating to marketing and distribution costs is estimated at $350 million for fiscal year 1989-90, compared with the 1988 budget projection. Not proceeding with the wholesaler licence proposals will result in a one-time reduction in federal revenues of about $200 million in the 1989-90 fiscal year. Rate increases announced in this budget will compensate for this shortfall. The decision to retain taxes at the wholesale level on certain items will increase revenues by about $30 million annually.

Other

Tobacco Products Taxation

The budget proposes to increase federal taxes and duties on cigarettes immediately by two cents a cigarette. The excise duty increase, in combination with the federal sales tax which applies to the manufacturers' sale price inclusive of the excise duty, will raise federal levies on a carton of cigarettes by $4.00. This increase will be comprised of $3.39 additional excise duty and an associated $0.61 of additional federal sales tax. The sales and excise taxes and excise duty on cigars will be increased proportionately. These changes will provide additional revenues of about $725 million in the 1989-90 fiscal year, taking into account the decline in consumption expected as a result of the higher price.

The budget also proposes to narrow the tax differential between manufactured tobacco (which includes fine-cut tobacco, pipe tobacco and snuff) and cigarettes. The sales and excise levies on manufactured tobacco will be increased immediately by $4.00 per 200 gram container, approximately equivalent to two cents a cigarette. These levies will be increased by an additional $1.30 per 200 grams October 1, 1989. At that time, the excise duty and excise tax on manufactured tobacco will equal about two-thirds of the excise levies on cigarettes.

The existing differential in the tax burden between cigarettes and manufactured tobacco – in particular, fine-cut tobacco – has encouraged increased consumption of manufactured tobacco products. Users of these products may expose themselves to even greater health risks than smokers of regular cigarettes. As well, the existing lower rate on fine-cut tobacco provides an incentive for tobacco companies to develop and market new products which are, effectively, cigarettes but which, on technical grounds, fall outside the definition. The prospect of more aggressive tax avoidance along these lines has recently increased and posed a threat to government revenues.

These measures, besides increasing revenues, complement the government's comprehensive strategy of reducing tobacco smoking in Canada, including legislation to ban tobacco advertising, and increasing public knowledge of the health hazards of smoking.

Tax Changes Affecting Motive Fuels

Increased Excise Taxes

The excise tax on gasoline and aviation gasoline will be increased by one cent a litre on April 28, 1989, and by another cent a litre on January 1, 1990.

The excise tax on leaded gasoline and aviation gasoline will be increased by an additional cent a litre on April 28, 1989, to discourage the use of leaded fuel. This increase in tax will accelerate the decline in the use of leaded fuel, which has clearly been shown to be harmful to the environment and to human health.

The excise tax on diesel fuel will not be increased.

The Fuel Tax Rebate Program

Rebates of sales tax on gasoline and diesel fuel for off-highway production purposes will stay in force.

The fuel tax rebate program provides to primary producers (farmers, fishermen, loggers, miners, hunters and trappers) rebates of federal sales and excise taxes on motor vehicle fuels used for off-highway production purposes. The program was introduced in the fall of 1984 as a temporary measure.

Farmers receive sales and excise tax rebates of 8.5 cents a litre on gasoline and 7.5 cents a litre on diesel fuel. Other primary producers receive 5 cents a litre and 4 cents a litre respectively. The annual cost of the program is $250 million, of which about $200 million is paid to farmers. The program is scheduled to expire December 31, 1989.

The rebates of excise tax to primary producers will be allowed to expire as scheduled. Pending sales tax reform, however, rebates of federal sales tax on motive fuels will be extended for another year, to December 31, 1990. Accordingly, farmers will continue to receive a federal sales tax rebate of 3.5 cents a litre for gasoline and diesel fuel used for off-highway production purposes. Other primary producers will continue to receive a sales tax rebate of 3.0 cents a litre.

Under the new sales tax to be implemented on January 1, 1991, all commercial users will become entitled to recover federal sales taxes paid on business inputs. This will include motor vehicle fuels acquired by primary producers for off-highway production purposes. With sales tax reform, this will also include fuels used in the commercial transportation of goods.

Other Commodity Tax Changes

- Under the Excise Act, certain archaic provisions place the burden of proof in offences under the Act on the accused rather than the Crown. These will be amended to be made consistent with rights guaranteed by the Canadian Charter of Rights and Freedoms.

- Machinery and apparatus purchased for use primarily and directly in the processing or treatment of toxic wastes in toxic waste treatment plants will be exempted from federal sales tax.

- To correct anomalies in the application of the federal sales tax, the imposition of tax on laundry detergent will be shifted from the manufacturer's trade level to the wholesale level, effective January 1, 1990.

- The illegal importation of cigarettes without payment of federal taxes and duties is becoming a serious problem. To facilitate the identification of tobacco products that have been brought into Canada illegally and thus improve enforcement, tobacco manufacturers and importers will be required to indicate clearly on packages, cartons and boxes whether federal excise duties have been paid. Penalties for possession or sale of tobacco products on which the excise duty has not been paid will be increased to between double and triple the excise duty imposed on the goods.

D. Federal Revenue Impact of Budget Tax Measures

Table D-1

	Effective date	Federal revenue impact: Taxation year[1] 1989	1990
		(millions of dollars)	
Personal income tax measures			
Increase surtax from 3% to 5%	July 1, 1989	500	1,075
High-income surtax	July 1, 1989	75	165
Repayment of social transfers[2]	phased in: ⅓ 1989 ⅔ 1990	140	320
Annual reporting of accrued investment income	Instruments purchased after 1989	No impact until 1991	
Increase in refundable sales tax credit	July 1, 1989	−270	−655
Legal expenses	1986 tax year	Small revenue reduction	
Tax rate on income not attributed to a province	July 1, 1989	Small revenue gain	
Deduction for part-time attendant care for the working disabled	1989 tax year	−5	−5
Measures affecting corporations			
Large corporations tax and modified corporate surtax	July 1, 1989	485	965
Leasing	Leases entered into after April 26, 1989	Prevents significant revenue loss	
Preferred share dividend tax deduction	January 1, 1990	Small revenue gain	
Corporate tax payments	January 1, 1990	No impact on liabilities[3]	
One-year extension in reassessment period for corporations other than CCPCs	April 28, 1990	Prevents revenue loss	

	Effective date	Federal revenue impact	
		Taxation year[1]	
		1989	1990
		(millions of dollars)	
Other income tax measures			
Threshold for accelerated remittances of source deductions	January 1, 1990	No impact on liabilities[4]	
Securities lending	June 1, 1989	Small revenue impact	
Dividend rentals	May 1, 1989	Preventive	
Dispositions by non-residents	April 28, 1989	No impact on liabilities	
Increase in interest rate on overdue taxes and tax refund[5]	October 1, 1989	15	60
Sales tax measures pending sales tax reform			
Increase federal sales tax rates:			
• construction materials and equipment for buildings, from 8% to 9%	January 1, 1990	–	250
• alcoholic beverages and tobacco products, from 18% to 19%	April 28, 1989	45	70
• all other taxable goods, from 12% to 13½%	June 1, 1989	875	1,600
• telecommunication services and telecommunication programming services, from 10% to 11%	June 1, 1989	60	110
Shift of tax on laundry detergents to wholesale level	January 1, 1990	–	10
Withdraw marketing and distribution cost measure proposed in February 1988 budget		–325	–350
Withdraw revised criteria and compliance procedures for wholesaler licences proposed in February 1988 budget		–150	–50
Retain tax at wholesale level on certain items		30	30
Extend sales tax portion of fuel tax rebate	January 1, 1990	–	–125
Exempt certain toxic waste treatment machinery from federal sales tax	April 28, 1989	Small revenue loss	

	Effective date	Federal revenue impact	
		Taxation year[1]	
		1989	1990
		(millions of dollars)	
Excise measures			
Increase excise levies on tobacco products[6]:			
• cigarettes, by $4 per carton	April 28, 1989	535	770
• cigars, by $4.00 per thousand; excise tax from 30% to 40%	April 28, 1989		
• manufactured tobacco, by $4 per 200 grams	April 28, 1989	110	160
• manufactured tobacco, by $1.30 per 200 grams	October 1, 1989	10	45
Increase excise tax on:			
• gasoline and aviation gasoline, by 1 cent per litre	April 28, 1989	215	320
• gasoline and aviation gasoline, by 1 cent per litre	January 1, 1990	–	320
• leaded gasoline and aviation gasoline, by an additional 1 cent per litre	April 28, 1989	35	20

[1] In the case of personal and corporate income tax measures, the revenue effects refer to taxation years. For commodity tax measures, the values are for sales during the calendar year.

[2] Amounts shown are liabilities net of personal income tax that would have been payable had benefits not been subject to repayment.

[3] The acceleration in corporate cash payments is expected to increase government revenues by $350 million in fiscal year 1989-90.

[4] The change in the threshold is expected to reduce cash payments in respect of source deductions by $80 million in fiscal year 1989-90.

[5] The amount shown reflects estimated increase in net interest paid. The measure is also expected to induce some acceleration in remittance of taxes owed.

[6] The increase in the excise levies on tobacco products and the revenue impacts shown include the impact of applying the 18 per cent federal sales tax to the higher levels of excise duties.

E. Agriculture

Federal spending in the agriculture sector has increased dramatically in recent years, growing from $3.2 billion in 1984-85 to some $5.8 billion in 1987-88. Expenditures related to grain assistance alone exceeded $10 billion over the last five years. Additional federal expenditures in excess of $1 billion were committed over the same period to address the credit difficulties experienced by farmers. This increase in federal expenditures is largely attributable to four main factors:

- **First**, the federal government, through both statutory programs and special measures, such as the $2.1 billion Special Canadian Grains Programs, intervened to assist grain farmers caught in the prices collapse resulting from the international grain trade war. The trade war had its roots in the farm policies of certain countries, which encouraged uneconomic grain production and eroded the market share of traditional producers.

  In response to the increasingly distorted international markets, particularly for grains, Canada individually and jointly with the Cairns[1] Group has taken a leading role in pressing for fundamental reform of the international agricultural trading system. At the Tokyo, Venice and Toronto Economic Summits, at OECD Ministerial meetings and in the Uruguay Round of GATT Multilateral Trade Negotiations, Canada has been at the forefront in urging:

  - a substantial, concerted and progressive reduction in trade-distorting subsidies and protection,
  - major improvements in and secure market access for our exports, and
  - the introduction of stronger GATT discipline on agriculture trade practices which would apply equally to all GATT members.

  The agreement reached in early April on a negotiating framework for agriculture in the MTN represents significant progress on the above issues. This agreement sets out the longer-term objectives for the negotiations and also provides for an immediate short-term freeze on domestic and export support and protection during the course of these negotiations.

- **Second**, confronted with three major droughts within five years, which particularly hurt the Prairies, the federal and provincial governments

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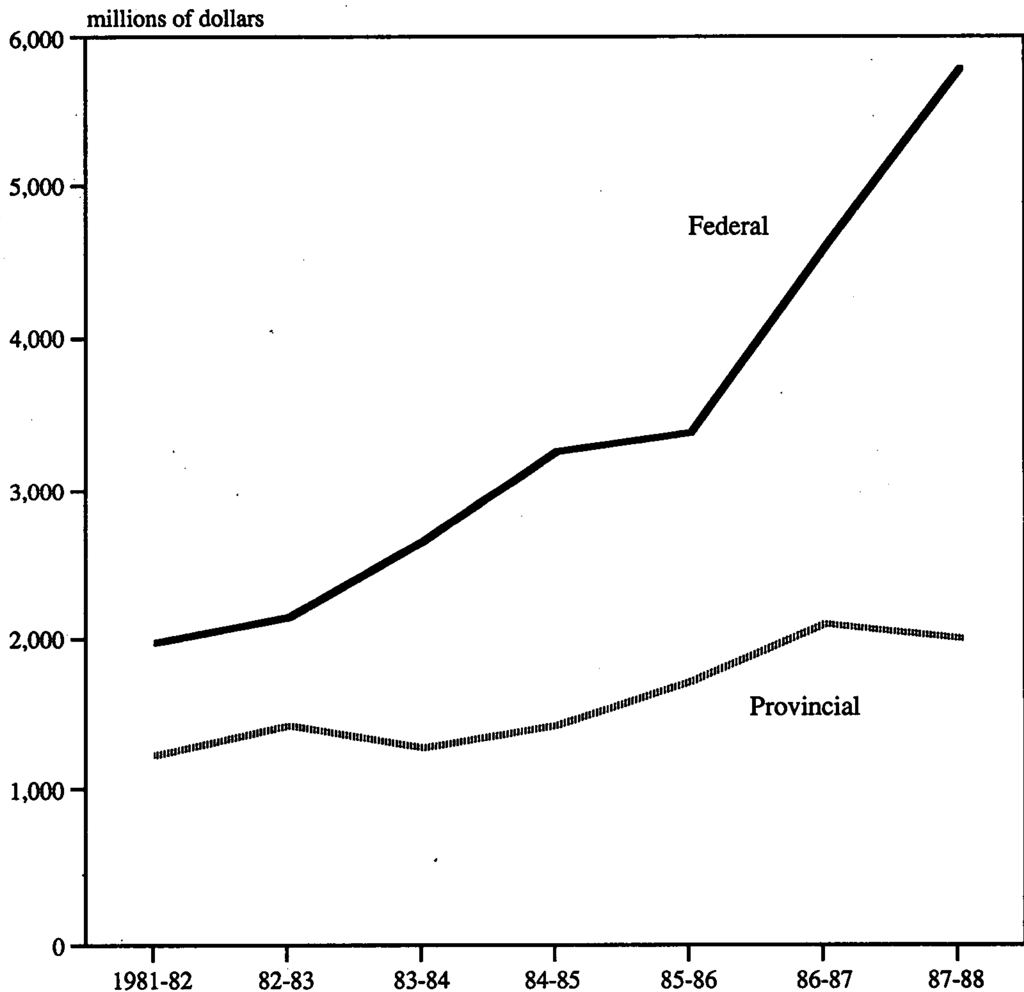
[1] Established in Cairns, Australia, in August 1986, to promote agriculture trade reform through GATT negotiations. The Cairns Group consists of Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

introduced special measures to supplement the crop insurance program. Also, federal premium contributions for Crop Insurance have grown, and as reserves in the Crop Insurance Fund were not sufficient to cover the compensation costs associated with these disasters, advances have been required to cover deficits in the crop insurance program.

- **Third**, although agriculture is a shared responsibility, the federal government has borne the brunt of the costs associated with these difficulties, as the following chart indicates.

Chart 7

Federal and Provincial Expenditure on Agriculture Fiscal Years 1981-82 to 1987-88



Source: Agriculture Canada, public accounts data and estimates.

- **Fourth**, concurrent with declining market incomes, particularly in the grains and oilseed sectors, the value of farm assets declined by 25 per cent relative to 1981 levels and some farmers found themselves with neither the cash flow nor the security needed to cover their debts. The government introduced a number of measures to help restore the financial viability of the Farm Credit Corporation and, through the Farm Debt Review Boards and various transition programs, to provide assistance to farmers in difficulties.

The foregoing developments have put a great deal of pressure on efforts to reduce the federal deficit. Existing safety net programs have made unprecedented payouts and additional special measures were introduced to cope with changing circumstances. It is recognized that resorting to ad hoc special measures is not satisfactory as a policy framework over an extended period. In addition to fiscal concerns, they can create economic distortions which threaten the farm sector's efficiency and competitiveness and they have given rise to tensions between the various agriculture sectors and between different producing regions of the country. The result is an unpredictable policy environment which makes it hard for farmers to make planning and investment decisions.

Having been through this difficult period, it is time to take stock of what has been learned, to adjust plans for the future, and lay new foundations to meet the opportunities and challenges which lie ahead for Canadian agriculture. Markets have changed and will continue to impose new demands on Canadian farmers, processors and governments. The results of the GATT negotiations will also have a critical bearing on future market prospects. These developments will require adaptation and innovation by both governments and farmers.

The federal approach to agriculture for the 1990s will be to foster a productive and **economically viable** industry that is able to become increasingly **self reliant** in a stable and predicable policy environment which does not impede innovation, risk-taking or diversification. The farm sector will be encouraged to respond to new **market opportunities** and changes will be made to policies and programs that insulate farmers from market signals. As well, federal policies will focus on **environmentally sustainable** development consistent with the long-term conservation of Canada's soil and water base and the safety and health of Canadians.

This approach will require an active partnership between governments, producers and others in the sector. Particularly important will be more equitable arrangements to manage the risks and **share responsibility** for the costs of programs needed for the farm sector. And at the international level, negotiations with our trading partners will continue, to ensure that Canada shares in the benefits of the historic multilateral trade negotiations now underway.

Over the coming months, the Minister of Agriculture, in consultation with producers, the food processing industry, and his provincial colleagues, will assess all current agriculture policy and programs. Several major reviews are already underway, including safety net programs, crop insurance and pesticide registration. This assessment will take into account the unique nature of Canadian agriculture. It will build upon the important contributions made by its organizations and institutions, and individual farm families.

F. Regional Development Programs

There are a large number and a wide variety of federal activities which, under a broad definition, could be viewed as supporting regional development. The federal government's explicit regional development efforts have, however, traditionally and more commonly been associated with a more narrowly defined set of programs and policies, such as those which were first embodied in the Department of Regional Economic Expansion in the late 1960s. These explicit regional development programs have typically involved a combination of federally delivered regional business assistance programs and joint federal-provincial cost-shared efforts under long-term federal-provincial regional development agreements. They presently include the activities of the Atlantic Canada Opportunities Agency (ACOA) in the Atlantic provinces, the activities of the Department of Western Diversification (WD) in Western Canada, the regional development responsibilities and activities of the Industry, Science and Technology Canada (ISTC) with respect to Quebec and Ontario, including the Special Northern Ontario Development Fund (FEDNOR), and the activities undertaken by these regional agencies and other federal departments, in co-operation with the provinces, under the Economic and Regional Development Agreements (ERDAs).

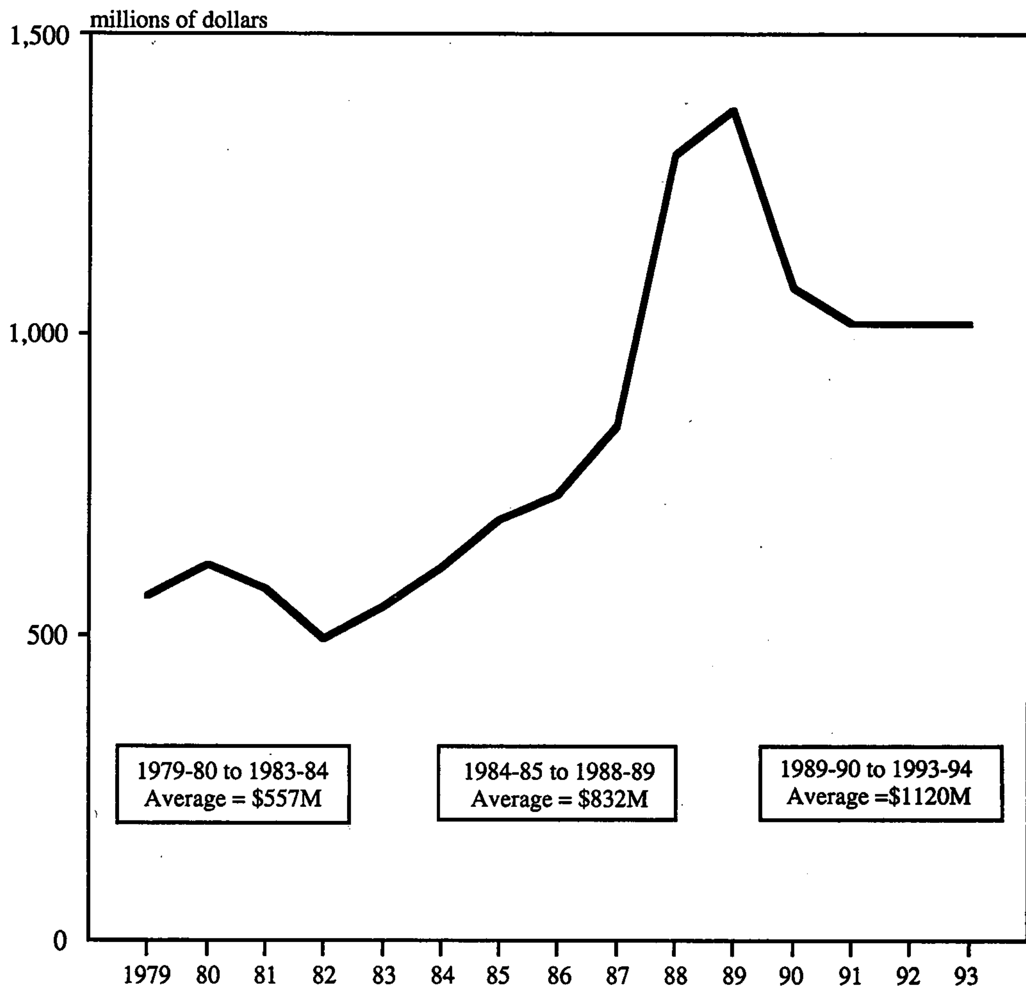
Federal spending on these regional development program activities has risen considerably over the past five years. Total spending over the 1984-85 to 1988-99 period is estimated at $4.2 billion. This compares to $2.8 billion over the previous five-year period. On an annual basis, spending has increased from $0.6 billion in 1984-85 to an estimated $1.3 billion in 1988-89.

The government remains strongly committed to regional development. However, given the government's fiscal situation, the current all-time high levels of spending under regional development programs are not fiscally sustainable. The budget therefore provides for a consolidation of the federal commitment to regional development demonstrated over the past five years at levels which respect the government's fiscal situation and provide more long term funding stability. Although overall funding will be higher over the next five years as a whole, adjusting from peak year expenditure levels to the more fiscally sustainable funding levels now established will result in short-term constraints on regional agency budgets. These constraints will be more or less significant in particular regions, depending on respective levels of existing commitments, and will determine the level and pace at which new funding commitments can be entered into over the next year or so.

Federal expenditures on these regional development program activities over the 1989-90 to 1993-94 period are established at an estimated $5.6 billion – a figure some 35 per cent higher than estimated actual expenditures over the past five years. On a year-to-year basis, following a projected peaking of expenditures at close to $1.4 billion in 1989-90, annual funding provisions will be stabilized at somewhat over $1 billion a year. This compares with an annual average spending level of some $830 million over the past five years.

Chart 8

Regional Development Funding 1979-80 to 1993-94

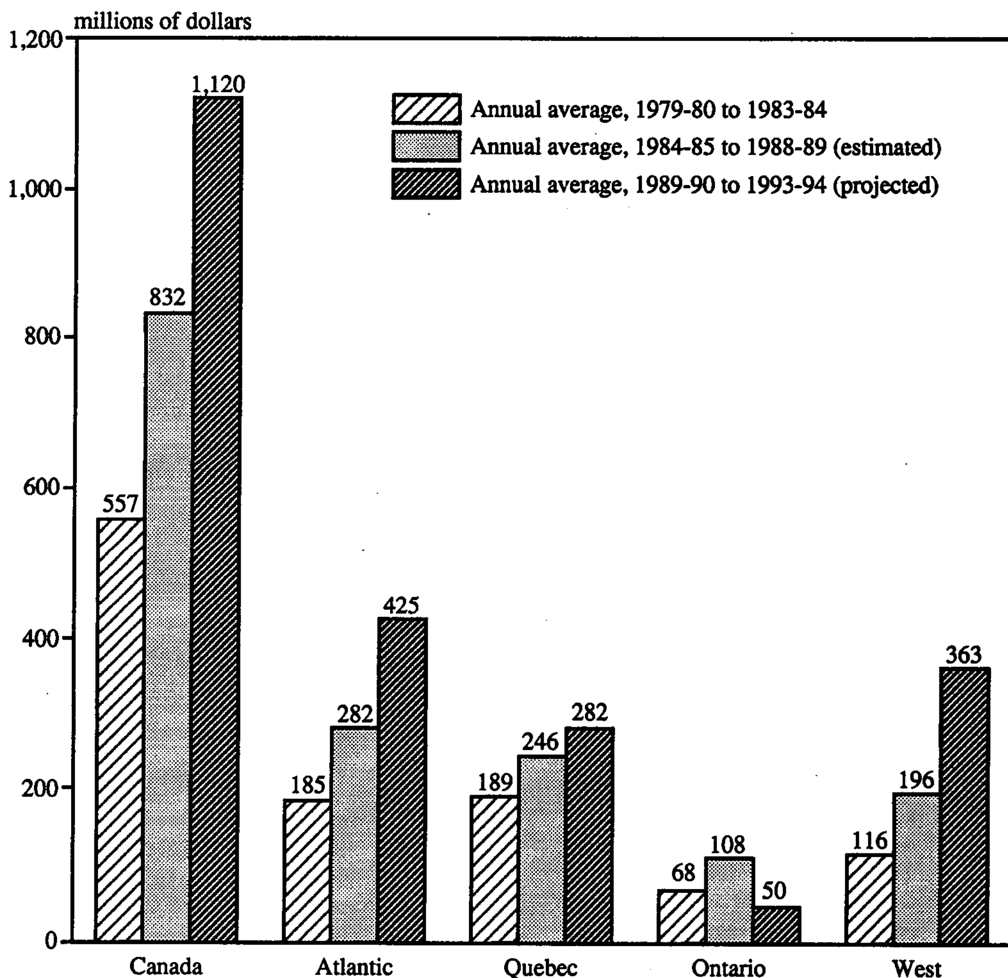


While constraints will be experienced over the short term, over the next five years as a whole funding in each region, with the exception of Ontario, will exceed estimated spending levels over the past five years. Ontario's declining funding levels reflect the relative economic strength and diversity of the provincial economy as a whole and its generally more advantageous economic circumstances. Continued efforts will, however, be directed to those areas of the province, particularly Northern Ontario, which face relatively more difficult economic circumstances and development constraints.

Regional funding and programming priorities within the available resources will be established by the ministers responsible for ACOA, WD and ISTC – including FEDNOR – in consultation with other federal ministers and provincial governments.

Chart 9

Regional Development Funding



G. Crown Corporations and Other Related Measures

Privatization

In 1984, the government made a commitment to undertake a major review of the role of Crown corporations. There has been significant progress to date. The number of parent Crown corporations has been reduced over the last four years. The government's actions have resulted in the sale of all or part of sixteen corporations, the dissolution of eight entities, and two transfers to the territorial governments. These transactions represent a transfer to the private sector of assets of some $5 billion, and a significant reduction in the role of the federal government in the economy:

- aircraft manufacturers – Canadair and de Havilland;
- telecommunication companies – Teleglobe;
- transportation companies – the Northern Transportation Company Limited; a forty-five percent interest in Air Canada;
- natural resource companies – Fisheries Products International; Eldorado Nuclear which was transferred to a joint venture company in co-operation with the province of Saskatchewan; and
- public utilities – the Northern Canada Power Commission which the government transferred to the territorial governments of the Yukon and the Northwest Territories.

The government has also dissolved a number of inactive entities including Canagrex, Loto Canada and St. Anthony Fisheries.

This program of privatization has improved Canada's competitive position without reducing the quality of services that Canadians receive. It has led to improved operating and financial performances of many of the corporations, reduced future potential financial demands on the public purse and provided funds from the sales to reduce the country's deficit.

While substantial progress has been made in rationalizing the portfolio of government corporate investments, more remains to be done. The government's privatization efforts will continue during the period ahead. An immediate priority will be placed on selling the government's remaining shares in Air Canada at the

earliest appropriate time. The government will seek new owners for two former divisions of Atomic Energy of Canada Limited, Nordion International Inc. and Theratronics International Ltd. In addition, the government will continue to evaluate the most suitable candidates for sale or rationalization.

Canada Post Corporation – Commercial Mandate

In fiscal 1984-85, Canada Post received a $395 million operating deficit subsidy. In addition, the corporation received payments from the federal government for providing services at less than full cost, such as delivering newspapers, books and magazines at reduced postal rates ($226 million). In the February 1986 budget, the Minister of Finance stated that the government was determined to come to grips with Canada Post's financial and operating problems. The minister requested a new operating plan from the Corporation which would improve productivity and which would eliminate the operating deficit subsidy by the end of fiscal 1987-88. The government requested that Canada Post take steps to improve productivity and efficiency and meet the objective of self-sufficiency while improving the reliability of service to the people of Canada.

Canada Post has improved productivity and service. Since 1984 the increase in the first class letter rate has been kept to less than the increase in the consumer price index. The Corporation committed itself to new on-time delivery targets for mail delivery in 1987 and has made significant progress in this regard. An external auditor, measuring performance quarterly, has confirmed that at the end of 1988 over 92 per cent of first class letters were delivered on time.

Canada Post expects to have a profit in 1988-89, the first time in 30 years. The Corporation plans to remain profitable over the next five years while at the same time reducing a planned 1990 rate increase on first class letters from 2 cents to 1 cent.

The Canada Post Corporation has been successfully turned around and expects to operate increasingly on a commercial basis. It plans to borrow directly in private sector debt markets, establish appropriate financial targets, and pay a dividend to the government. With capital investments of about $2 billion in the next five years, the Corporation will be in a position to further improve service and productivity.

The government has requested the Corporation to adopt a target return on equity in 1993-94 which would be appropriate for a company of similar size and comparable objectives operating in the private sector and, at the same time, to restrain first class letter rate increases to less than the increase in the consumer price index. A commercial mandate for Canada Post is expected to yield about $300 million in dividends over the next five years. As these dividends contribute to reducing the government deficit, the Canadian public will receive a benefit in addition to reliable postal service from its $1.6 billion investment in Canada Post.

Concurrent with Canada Post's adoption of these new targets, the government will transfer the Corporation from Schedule III(I) to Schedule III(II) in the Financial Administration Act. Like other Schedule III(II) Crown corporations, Canada Post operates in a competitive environment and is no longer dependent on appropriations. However, the Corporation will continue to submit an operating budget for Treasury Board approval until it has established a longer-term track record of financial viability. In keeping with the commercial orientation of Canada Post, the government is also prepared to consider providing the Corporation with a share capital structure which would allow traditional measures of financial performance to be applied.

H. Cost Recovery – Progress Report

In November 1984, the government undertook to increase the level of cost recovery for government services. The policy change was based on the realization that the taxpayer was often bearing the cost of services even when they were of a commercial nature or conferred specific benefits or rights on particular users or organizations.

As a result of the 1984 initiative, new fees were introduced and other fees were increased for activities such as radio licensing, telecommunications, weights and measures inspections, patent registrations, immigration and citizenship fees, and transportation services. The impact of these measures has been to increase 1989-90 revenues by over $300 million.

The government views this initiative as an important element of its management philosophy as it provides a mechanism for promoting greater fairness and equity in the financing of activities. At the same time, it fosters a more business-like approach to the provision of these services, making them more responsive to the willingness of users to pay. It also encourages operational efficiency by focusing greater attention on the cost of such services.

In implementing its cost recovery program, the government recognizes that the impact on users of services and on affected industries must be carefully assessed to ensure that there are no unintended effects. Consequently, the government has in some cases deferred the implementation of fees and charges to permit further study or consultation. In other cases it has delayed or staged the introduction of fees that were contemplated in 1984. This consultative process will continue.

The commitment to a consultative process which is open and sensitive to the particular circumstances of individual sectors remains. In this spirit, the government will continue to pursue its cost recovery objectives in a number of areas in 1989-90 including marine services, food inspection activities, and the introduction of fees for the pre-market evaluation of drugs. The Minister of Fisheries and Oceans is reviewing commercial licence fees to ensure that those benefiting from the fishing privilege pay an amount that more closely reflects the benefits derived from the common property resource. An appropriate fee regime to recover the costs of the National Energy Board and the Atomic Energy Control Board will also be introduced in 1989-90.

I. Tariff Measures

Extension of Authority to Restore Pre-Harmonized System Tariff Rates

Importers are to have additional time to submit requests that tariff rates in effect before the recent harmonization exercise be restored.

Canada and most of its major trading partners converted their tariffs to the harmonized system nomenclature, an internationally agreed system for describing, classifying and statistically recording imported goods, on January 1, 1988.

Conversion was complex for Canada because the Customs Tariff had not undergone fundamental revision for decades. A major objective – successfully achieved – was to ensure the change would not affect revenue. For major trade items, the conversion maintained the same tariff rate. Because of the complexity of the conversion, however, all individual rates could not be guaranteed to remain the same, particularly in smaller trade areas.

Since a completely neutral rate conversion could not be guaranteed, the new Tariff included Order-in-Council authority to allow the government, during an 18-month period after implementation, to respond to requests to restore rates existing before harmonization. This authority was intended to be used to rectify only those changes injuring Canadian manufacturers or importers.

The government has received a number of representations indicating the business community has not had time to fully assess the impact of the conversion and present requests for restoration of previous tariff rates. The budget proposes to extend this authority for a further 12 months until June 30, 1990. This extension will enable the government to continue to respond to those cases where the conversion has had a negative economic impact on Canadian manufacturers or importers.

Conversion of Certain Remission Orders to Statutory Provisions

The Customs Tariff will be amended to provide duty-free entry for a range of imports hitherto benefiting from duty remission by Order-in-Council.

The government has the authority to remit customs duties by Order-in-Council in situations where it concludes that such action is appropriate. Most tariff remissions provide a remedy where the application of the general tariff laws or

regulations are having unintended and undesirable results for specific imports. Some duty remissions, however, are longer term; in most of these cases, the government has generally chosen to retain flexibility to withdraw the relief if warranted.

The government has decided relief should be made statutory in certain cases of remissions that have been in effect for a number of years. These Orders are being converted to provisions in the Customs Tariff with effect from April 28, 1989. This conversion will provide the business community with greater certainty regarding the tariff relief and will relieve the administrative burden which the Remission Orders place on the importing community.

Remission Orders providing duty-free entry for the following products will be converted to statutory provisions in the Tariff, with effect from April 28, 1989:

- books and printed matter;
- satellites and satellite subsystems for testing and articles for use in the manufacture of satellites and subsystems;
- materials for use in manufacture of upper atmospheric research rockets;
- investigational drugs, placebos, and emergency drugs;
- machinery and equipment for the manufacture of original equipment automotive parts;
- chemicals and photomasks for the manufacture of semi-conductors;
- used foundry patterns, core boxes, etc. temporarily imported for making metal castings;
- xenon lighting equipment;
- lamp bulbs for the production of Christmas lighting sets; and
- laminated glass dinnerware.

The current duty-free provision for lamp bulbs is being broadened to cover lamp bulbs for patio lighting sets which will reduce the duty from 12.6 per cent (MFN) to Free and the Xenon lighting equipment provision is being broadened to cover any importer. There will be no change in provisions of other Remission Orders.

Statutory Tariff Adjustments in Response to Domestic Concerns

Effective April 28, 1989, a limited number of amendments are being made to the Customs Tariff in response to requests from the private sector to take into account the evolving needs of Canadian business and industry. Duties are being removed on time recorders, vessels for scrapping, checking fixtures imported temporarily for manufacturing automotive production equipment, and pheasant blinders and

guards. The duty is being reduced on low alcohol beer from $0.135 per litre to $0.033 per litre, but the excise duty and sales tax are being raised to bring the treatment of imported low-alcohol beer into line with that of domestic low-alcohol beer. Another change will allow mongooses into Canada if imported by a zoological institution for display or study purposes. Several minor technical amendments are also being made to the Tariff. Details of these initiatives are contained in the Notice of Ways and Means Motion to Amend the Customs Tariff.

Continuation of Import Prohibition of Pornographic Material

The Customs Tariff prohibition of importation of pornographic, hate, treasonable and seditious materials is scheduled to expire on December 31, 1989. The Budget proposes to extend this prohibition indefinitely to ensure that such materials continue to be denied entry into Canada.

J. Measures Previously Announced and Forthcoming Legislation and Discussion Papers

Notices of Ways and Means motions, included in a later section of this volume, deal with a number of measures announced by the Minister of Finance prior to this budget relating to:

- the treatment as medical expenses of bone marrow and organ transplants and certain home improvement costs for those individuals confined to a wheelchair (Press Release: December 20, 1988);
- tax relief for drought-induced sales of breeding livestock herds (Press Release: December 12, 1988);
- recapture and terminal loss on passenger vehicles (Press Release: January 24, 1989);
- the exclusion from income of the benefit of certain employer-provided counseling services (Press Release: June 30, 1988);
- the introduction of a penalty on those issuers of registered retirement savings plans who extend inducements to taxpayers (Press Release: December 19, 1988); and
- income for purposes of calculation of Guaranteed Income Supplement (Ministers of Health and Welfare and Veterans Affairs Press Release: December 23, 1988).

The government intends to introduce a bill this session containing technical revisions to the Income Tax Act which will deal with a number of technical deficiencies that have come to light since the last major technical revision in 1985.

There is a need for a review of the interest expense provisions of the Income Tax Act because of the Supreme Court of Canada decision in the Bronfman Trust case which altered the interpretation of the existing provisions that had long prevailed. While a Ways and Means Motion has been tabled (September 29, 1988) to restore the previous interpretation for interest on indebtedness incurred before 1990, it is planned to release a discussion paper later this year to deal with that decision and with other aspects of the current rules that are generally recognized as deficient.

A technical paper on the implementation of the "available-for-use" provisions of the Capital Cost Allowance regulations will be released.

Notice of Ways and Means Motion to Amend the 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 to provide among other things:

Repayment of Social Transfers

(1) That, for the 1989 and subsequent taxation years, a special tax be imposed on individuals equal to the lesser of

(a) the aggregate of Old Age Security and Family Allowance benefits included in computing the individual's income for the year, and

(b) 15% of the amount by which the individual's income for the year (determined without reference to this paragraph) exceeds $50,000,

and that

(c) the amount of such tax be deductible in computing the individual's income for the year, and

(d) the $50,000 threshold be adjusted after 1989 by reference to the annual increase in the Consumer Price Index in excess of 3%,

except that, for the 1989 and 1990 taxation years, such special tax be equal to one-third and two-thirds, respectively, of the special tax otherwise determined under this paragraph.

Individual Surtax

(2) That

(a) the individual surtax be increased from 3% to 4% for the 1989 taxation year and to 5% for subsequent taxation years, and

(b) an additional surtax be imposed on individuals at the rate of 1 1/2% for the 1989 taxation year and 3% for subsequent taxation years of the tax payable under Part I of the Act for the year in excess of $15,000 and for this purpose "tax payable under Part I" has the same meaning as that provided for the purposes of the existing surtax.

Annual Reporting of Accrued Investment Income

(3) That the rules in sections 12 and 12.2 of the Act requiring the income accrued on certain investments to be included in income at least every three years be amended, effective for investments acquired after 1989, to require the annual inclusion in income of the interest or other investment income accrued thereon.

Legal Expenses

(4) That, for the 1986 and subsequent taxation years, legal expenses paid after 1985 by an individual to collect or establish a right to a retiring allowance or pension benefit be deductible within a seven year carry-forward period in computing the individual's income for the year in which the allowance or benefit is received to the extent of the amount of such allowance or benefit less any portion thereof that has been transferred to a registered pension plan or registered retirement savings plan.

Tax Rate on Income Not Attributed to Provinces

(5) That the amount added under subsection 120(1) of the Act to the tax payable by an individual for a taxation year with respect to income not earned in a province be increased from 47% of that tax to 49.5% for the 1989 taxation year and to 52% for subsequent taxation years.

Deduction for Part-Time Attendant Care

(6) That, for the 1989 and subsequent taxation years, an individual who claims the disability credit be permitted to deduct in computing income for the year an amount equal to the least of

(a) the remuneration paid in the year by the individual to an attendant (other than a person under 18 years of age or connected with the individual by blood relationship, marriage or adoption) for the individual's care provided to enable the individual to work,

(b) 2/3 of the individual's earned income for the year, and

(c) $5,000

and, for this purpose, "earned income" of an individual for a taxation year means the individual's income that is taxable in Canada for the year from employment and business and includes training allowances under the *National Training Act* and research grants (net of expenses).

Large Corporations Tax

(7) That,

(a) with respect to each taxation year or part thereof after June, 1989, each taxable Canadian corporation and each other corporation that has a permanent establishment in Canada be subject to a special tax at an annual rate of 0.175% of its capital employed in Canada in the year in excess of $10,000,000 (or portion thereof allocated to the corporation in the case of a corporation that is a member of a related group of corporations),

(b) the special tax so payable by a corporation for a taxation year not be deductible in computing its income but be creditable against that portion of its surtax payable for the year or any of its three preceding or seven subsequent taxation years that is attributed to the period after June, 1989 and that, based on the allocation rules in Part IV of the Income Tax Regulations, is allocable to Canada, and

(c) the special tax be required to be payable by monthly instalments except that no such tax or instalment be required to be remitted by a corporation before 1990.

Part VI Tax

(8) That, for the 1990 and subsequent taxation years, for the purposes of the Part VI tax on the capital of financial institutions

(a) the investment allowance be restricted to investments in related financial institutions,

(b) the amount of taxable capital of a financial institution for a taxation year be determined on the basis of its capital at the end of the taxation year rather than the immediately preceding taxation year, and

(c) the tax be required to be paid in monthly instalments.

Corporate Surtax

(9) That, for each taxation year or part thereof after June, 1989, the 3% surtax payable by a corporation be computed before any deduction from its tax payable in respect of the small business deduction and the credit for manufacturing and processing profits and without allowance for any tax credited to its refundable dividend tax on hand.

Leasing

(10) That special rules relating to leased property be introduced in accordance with draft amendments to the Act and the *Income Tax Regulations* tabled in the House of Commons by the Minister of Finance on April 27, 1989 with effective dates as described therein.

Preferred Share Dividend Tax Deduction

(11) That the amount deductible in respect of the special tax levied under Part VI.1 of the Act on dividends paid on preferred shares by a corporation in computing its taxable income be reduced from 5/2 to 9/4 of such tax for dividends paid after 1989.

Corporate Tax Instalments

(12) That, after 1989, monthly instalments of corporate tax and other amounts payable by corporations be deemed for the purposes of the rules relating to interest and penalties to have been remitted only when received by the Receiver General or by a Canadian financial institution on his behalf.

Reassessment Period

(13) That the statutory period for issuing notices of reassessment under the Act be extended by one year for notices of reassessment issued after April 27, 1989 to corporations that were not Canadian-controlled private corporations at the time of the original assessment that was not statute-barred at that date.

Dispositions by Non-Residents

(14) That the 15% rate of tax payable under section 116 of the Act by a purchaser on behalf of a non-resident in respect of dispositions after April 27, 1989 of taxable Canadian property be increased to 33 1/3% (30% in respect of such dispositions before 1990).

Securities Lending

(15) That special rules relating to securities lending be introduced in accordance with draft amendments to the Act tabled in the House of Commons by the Minister of Finance on April 27, 1989 with effective dates as described therein.

Dividend Rentals

(16) That special rules relating to dividend rentals be introduced in accordance with draft amendments to the Act tabled in the House of

Commons by the Minister of Finance on April 27, 1989 with effective dates as described therein.

Medical Expenses

(17) That, for the 1988 and subsequent taxation years, the costs of arranging a bone marrow or organ transplant and the cost of structural modifications to a home required to enable an individual, necessarily confined to a wheelchair for a long period of indefinite duration, to gain access to and be mobile and functional within his or her home qualify for the purposes of the medical expense credit.

Drought Relief

(18) That a tax deferral in respect of drought-induced sales of breeding livestock herds be provided in accordance with draft amendments to the Act announced by the Minister of Finance on December 12, 1988 with effective dates as described therein.

Recapture and Terminal Loss

(19) That, for fiscal periods and taxation years commencing after June 17, 1987 that end after 1987, the exemption for certain motor vehicles and passenger vehicles from the rules relating to the recapture of capital cost allowance and terminal losses be restricted to passenger vehicles having a cost in excess of $20,000 or such other amount as may be prescribed, in accordance with the draft amendments to the Act announced by the Minister of Finance on January 24, 1989.

Counseling Services

(20) That, for the 1988 and subsequent taxation years, there be excluded from an individual's income from an office or employment in accordance with draft amendments to the Act announced by the Minister of Finance on June 30, 1988, the value of counseling services provided to the individual in respect of

(a) the mental or physical health of the individual,

(b) the re-employment of the individual where the services are provided within a 24-month period that includes the date of the individual's termination from an office or employment, or

(c) the individual's retirement from an office or employment where the services are provided either after the individual has reached 50 years of age or within a 24-month period that includes the date of retirement.

RRSP Advantages

(21) That where, after 1988, an issuer of a registered retirement savings plan extends an advantage to the annuitant of the plan or to a person not dealing at arm's length with the annuitant in contravention of paragraph 146(2)(c.4) of the Act

(a) the issuer be liable to a penalty in respect of the plan equal to the greater of $100 and the value of that advantage, and

(b) the plan not be deemed to be an amended plan by reason only of the extension of any such advantage

in accordance with draft amendments to the Act announced by the Minister of Finance on December 19, 1988.

Refundable Federal Sales Tax Credit

(22) That,

(a) the maximum refundable federal sales tax credit be increased for the 1989 taxation year from the existing $70 for an eligible individual and the individual's spouse and $35 for other qualified relations per person to $100 and $50, respectively, and be further increased for the 1990 taxation year to $140 and $70, respectively, and

(b) for the 1990 taxation year, the threshold income level at which the credit is reduced be increased from $16,000 to $18,000.

Notice of Ways and Means Motion to Amend the Old Age Security Act

Notice of Ways and Means Motion to Amend the Old Age Security Act

That it is expedient to amend the Old Age Security Act to provide that, for 1988 and subsequent years, the provisions of the Act relating to the computation of the income of a person be amended to provide that such income be reduced by the aggregate of

(a) all amounts payable by the person for the year as a premium under the *Unemployment Insurance Act* or a contribution under the *Canada or Quebec Pension Plan*, and

(b) the employment expense deduction that would be allowable for the year under paragraph 8(1)(a) of the *Income Tax Act* (as it read in its application to the 1987 taxation year) if that paragraph were applicable in computing the person's income for the year from an office or employment.

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

Notice of Ways and Means Motion 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:

Rates of Consumption or Sales Tax

1. That the ad valorem consumption or sales tax rates be increased to

(a) 9 per cent on the sale price of goods enumerated in Part I, Construction Materials, and Part II, Equipment for Buildings, of Schedule IV to the Act;

(b) 19 per cent on the sale price of wine and all goods on which a duty of excise is imposed under the Excise Act, or would be imposed under that Act were the goods produced or manufactured in Canada; and

(c) 13.5 per cent on the sale price of all other goods to which subsection 50(1) of the Act applies;

and that for purposes of calculating the specific consumption or sales tax rates on gasoline and diesel fuel, the rate of 13.5 per cent apply.

Telecommunication Programming Services Tax Rate

2. That the rate of the Telecommunication Programming Services Tax be increased to 11 per cent.

Telecommunication Services Tax Rate

3. That the rate of the Telecommunication Services Tax be increased to 11 per cent.

Excise Tax on Tobacco Products

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

(a) manufactured tobacco, including snuff, but not including cigars and cigarettes....$11.304 per kilogram; and

(b) cigars....forty per cent.

5. That the excise tax on manufactured tobacco, including snuff, but not including cigars and cigarettes, prescribed in any enactment founded on paragraph 4 of this motion be increased by $2.95 per kilogram to $14.254 per kilogram.

Excise Tax on Gasoline

6. That the excise tax on gasoline and aviation gasoline be increased as follows:

(a) on leaded gasoline and leaded aviation gasoline,

(i) by two cents per litre on April 28, 1989;

(ii) by an additional one cent per litre on January 1, 1990; and

(b) on unleaded gasoline and unleaded aviation gasoline,

(i) by one cent per litre on April 28, 1989;

(ii) by an additional one cent per litre on January 1, 1990.

Fuel Tax Rebate Program

7. That the fuel tax rebates of 3.5 cents per litre to farmers and 3.0 cents per litre to loggers, miners, hunters, trappers and fishermen in respect of the consumption or sales tax imposed on gasoline and diesel fuel under Part VI of the Act be extended to apply to gasoline and diesel fuel sold or imported on or before December 31, 1990.

Wholesale Tax on Laundry Detergent

8. That the consumption or sales tax be imposed on laundry detergents at the wholesale trade level by adding laundry detergents to the list of products enumerated in the Schedule to the Act entitled "Goods Sold by Deemed Manufacturers or Producers".

Toxic Waste Treatment Plants

9. That machinery and apparatus for use primarily and directly in the treatment or processing of toxic waste in a toxic waste treatment plant be exempt from the consumption or sales tax.

Effective Dates

10. That any enactment founded on

(a) subparagraph 1(b) and paragraphs 4 and 9 of this motion be effective on and after April 28, 1989;

(b) paragraph 1, other than subparagraphs 1(a) and (b), and paragraphs 2 and 3 of this motion be effective on and after June 1, 1989;

(c) paragraph 5 of this motion be effective on and after October 1, 1989; and

(d) subparagraph 1(a) and paragraphs 7 and 8 of this motion be effective on and after January 1, 1990.

Notice of Ways and Means Motion to Amend the Excise Act

Notice of Ways and Means Motion to Amend the Excise Act

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

Excise Duty on Tobacco

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

(a) on manufactured tobacco of all descriptions except cigarettes, $15.333 per kilogram actual mass;

(b) on cigarettes having a mass of not more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, $27.475 per thousand;

(c) on cigarettes having a mass of more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, $29.374 per thousand;

(d) on cigars, $9.189 per thousand; and

(e) on Canadian raw leaf tobacco when sold for consumption, $.969 per kilogram actual mass.

2. That the excise duty on manufactured tobacco of all descriptions except cigarettes prescribed in any enactment founded on paragraph 1 of this motion be increased by $3.00 per kilogram actual mass to $18.333 per kilogram actual mass.

Reverse-Onus-of-Proof

3. That the provisions of the Act which place the burden of proof upon the owner or claimant of goods or money, or the person whose duty it is to comply with the Act or in whose possession goods were found, in any proceedings instituted against a person for any penalty, imprisonment or forfeiture or for the recovery of any duty under the Act, or against the Crown or any officer for the recovery of any seized goods or money deposited under the Act, be repealed.

4. That the provisions of the Act which place upon a person accused of an indictable offence the burden of proving that he had a lawful excuse to sell, offer for sale, purchase or have in his possession any spirits not lawfully manufactured, imported or released from bond be modified to remove the burden from the accused.

Tobacco Product Markings

5. That all packages, cartons, boxes, crates and other containers of any description containing tobacco products warehoused in a bonding warehouse by the manufacturer be required to be marked and identified with respect to the payment of excise duties in such manner as may be prescribed by regulation.

Penalties

6. That a person guilty of an offence of having in his possession, selling or offering for sale manufactured tobacco or cigars except as provided in the Act be subject to a fine of not less than double the amount and not more than triple the amount of the duties of excise imposed on the goods.

7. That a person who sells or offers for sale imported tobacco or cigars not put up in packages and stamped in accordance with the Act be subject to a fine of not less than double the amount and not more than triple the amount of the duties of excise that would be imposed on the goods were the goods produced or manufactured in Canada.

Effective Dates

8. That any enactment founded on

(a) paragraph 1 of this motion be effective on and after April 28, 1989; and

(b) paragraph 2 of this motion be effective on and after October 1, 1989.

Notice of Ways and Means Motion to Amend the Customs Tariff

Notice of Ways and Means Motion to Amend the Customs Tariff

1. That paragraph 20(2)(a) of the *Customs Tariff* be repealed and the following substituted therefor:

"(a) beer or malt liquor, within the meaning of the *Excise Act*, of heading No. 22.03 or of tariff item No. *2202.90.10 or* 2206.00.70,"

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

"(2) Where, *in accordance with this Act, goods are entitled to the benefit of* more than one tariff treatment, the treatment *that shall be applied to those goods* is the treatment that is the most favourable for *those goods.*"

(2) That section 21 of the said Act be further amended by adding thereto the following subsection:

"*(4) The symbol "N/A", where it appears in the column "Most-Favoured-Nation Tariff", "General Preferential Tariff" or "United States Tariff" of a tariff item in Schedule I or in the column "Most-Favoured-Nation Tariff" or "General Preferential Tariff" of a code in Schedule II, indicates that there is no Most-Favoured-Nation Tariff, General Preferential Tariff or United States Tariff rate of customs duty, as the case may be, for that tariff item or code.*"

3. That section 43 of the said Act be repealed and the following substituted therefor:

"43. The Governor in Council may, on the recommendation of the Minister of Finance, by order, apply to *any* country or countries, as the case may be, a tariff rate quota in respect of *any* goods *for a period specified in the order.*"

4. That section 60.2 of the said Act be amended by adding thereto the following subsections:

"*(11) An order made pursuant to subsection (1) on or after the coming into force of this subsection is exempt from the application of sections 3, 5 and 11 of the Statutory Instruments Act.*

(12) Every order made pursuant to subsection (1) shall be published in the Canada Gazette."

5. That subsection 76(3) of the French version of the said Act be repealed and the following substituted therefor:

"(3) Le ministre peut, s'il juge, compte tenu des critères prévus au paragraphe 75(3), que les machines et appareils qui font l'objet d'une remise accordée en vertu du paragraphe (1) sont produits au Canada, annuler *celle-ci* et, malgré *ses* modalités, *elle* cesse de s'appliquer aux machines et appareils déclarés en détail, *après la prise d'effet de l'annulation*, en application de l'article 32 de la *Loi sur les douanes*."

6. That subsection 77(3) of the English version of the said Act be repealed and the following substituted therefor:

"(3) The Governor in Council may make regulations prescribing, *for the purposes of subsection (2), the manner of making an application and the time within which it must be made.*"

7. That the said Act be further amended by adding thereto, immediately after section 79 thereof, the following:

"DIVISION III.1

AUTOMOTIVE MACHINERY AND EQUIPMENT

79.1 In this Division,

"automotive machinery and equipment" means machinery and equipment for the manufacture of

(a) parts, accessories and parts thereof for use as original equipment for motor vehicles, or

(b) tooling for the production of such parts, accessories and parts thereof;

"motor vehicles" means vehicles that, if imported, would be classified under heading No. 87.02, 87.03 or 87.04 or subheading No. 8701.20, 8705.10, 8705.20, 8705.30 or 8705.40.

79.2 (1) Where an application for remission is made in accordance with subsection (4) and the Minister is of the opinion, having regard to the criteria mentioned in section 79.3, that the automotive machinery and equipment, in respect of which the application is made, is not available from production in Canada, the Minister may remit

(a) the customs duties that, but for this subsection, would be payable in respect of the automotive machinery and equipment, and

(b) that portion of the excise taxes that, but for this subsection, would be payable in respect of the automotive machinery and equipment in an amount equal to the difference between the amount of the excise taxes payable in

respect of the automotive machinery and equipment and the amount of excise taxes that would be payable in respect of the automotive machinery and equipment if the duty paid value used to calculate the excise taxes so payable were the value for duty used to calculate the customs duties so payable,

and, notwithstanding Part I and the Excise Tax Act, the amounts of the customs duties and excise taxes payable in respect of the automotive machinery and equipment shall be reduced in accordance with paragraphs (a) and (b).

(2) Subject to subsection (3), remissions under subsection (1) may be conditional or unconditional and may be granted regardless of whether in a particular case any liability to pay the duties has arisen.

(3) Where the Minister is of the opinion, having regard to the criteria mentioned in section 79.3, that automotive machinery and equipment in respect of which remission has been granted under subsection (1) has become available from production in Canada, the Minister may revoke the remission and, notwithstanding the terms and conditions of the remission, it shall cease to apply to automotive machinery and equipment accounted for under section 32 of the Customs Act after the effective date of the revocation.

(4) An application for remission must be accompanied by evidence satisfactory to the Minister that, having regard to the criteria mentioned in section 79.3, the automotive machinery and equipment is not available from production in Canada.

79.3 For the purposes of section 79.2, the Minister shall have regard to the following criteria:

(a) whether a manufacturer has, within his normal operational framework, the full range of technical and physical capabilities necessary for production in Canada of automotive machinery and equipment reasonably equivalent to the relevant automotive machinery and equipment;

(b) whether a Canadian manufacturer has so produced automotive machinery and equipment as to demonstrate a production competence reasonably equivalent to that required to produce the relevant automotive machinery and equipment; and

(c) whether an order for the relevant automotive machinery and equipment, if placed with a Canadian manufacturer at the earliest practicable time, could reasonably be or have been met within the required or actual delivery time.

79.4 (1) A remission of customs duties or excise taxes under section 79.2 shall be granted by way of a refund if

(a) the duties to be remitted have been paid; and

(b) an application for refund is made in accordance with subsection (2).

(2) For the purposes of paragraph (1)(b), an application for refund must be

(a) supported by such evidence as the Minister may require; and

(b) made in the prescribed manner and in the prescribed form containing the prescribed information within five years or, where another time is prescribed, within that other time, after the automotive machinery and equipment in respect of which it is made is accounted for under section 32 of the Customs Act.

(3) The Governor in Council may make regulations prescribing, for the purposes of subsection (2), the manner of making an application and the time within which it must be made.

79.5 (1) Where a remission is granted under section 79.2, the Minister shall issue to the person who applied for the remission a certificate bearing a number to be used to identify the automotive machinery and equipment.

(2) Where a remission granted under section 79.2 ceases to have effect or is revoked pursuant to subsection 79.2(3), the Minister may cancel the certificate issued under subsection (1) in respect of the remission.

(3) Automotive machinery and equipment in respect of which remission is granted under section 79.2 may be released without payment of the duties remitted thereby if the number mentioned in the certificate issued under subsection (1) is disclosed when the automotive machinery and equipment is accounted for under section 32 of the Customs Act and the certificate is in force at that time."

8. That paragraph 83(a) of the French version of the said Act be repealed and the following substituted therefor:

"a) la production auprès du ministre des rapports et autres renseignements que celui-ci exige pour l'application de la présente *section*;"

9. (1) That paragraph 100(1)(a) of the said Act be repealed and the following substituted therefor:

"(a) relief from the payment of the whole or the portion of duties is required to be granted by Division III, *III.1*, IV or V or the duties were not payable under section 74 or 75.1;"

(2) That subsection 100(3) of the English version of the said Act be repealed and the following substituted therefor:

"(3) The Governor in Council may make regulations prescribing, *for the purposes of subsection (2), the manner of making an application and the time within which it must be made.*"

10. That all that portion of section 102 preceding paragraph (a) thereof be repealed and the following substituted therefor:

"102. Relief may be refused under subsection 77(1) *or 79.4(1)* or section 80, 84 or 88 if, at the time the relief is authorized or required to be granted, the person to whom the relief is to be granted is indebted to"

11. That subsection 103(1) of the said Act be repealed and the following substituted therefor:

"103. (1) Where goods or materials are released without the payment in full of duties under subsection 79(3), *79.5(3)* or 82(2) or section 86 or 90 and a condition to which the relief is subject is not complied with, the person who fails to comply with the condition

(a) shall, within ninety days after the time of the failure to comply, report the failure to an officer at a customs office; and

(b) is, from the time of the failure to comply, liable to pay *to Her Majesty in right of Canada* an amount equal to the whole, or to the portion in respect of which the remission or relief was granted, of the duties that would, but for the remission or relief, be payable in respect of the goods or materials, *which amount shall, for the purposes of the Customs Act, be deemed to be an amount owing to Her Majesty in right of Canada pursuant to that Act.*"

12. (1) That paragraph 105(1)(a) of the said Act be repealed and the following substituted therefor:

"(a) the manufacturer or producer is liable to pay *to Her Majesty in right of Canada* an amount that bears the same proportion to the amount of the relief that the value of the by-product bears to the total value of the products that result from the processing of the goods or materials, where section 80 applies and the customs duties have not been paid, *which amount shall, for the purposes of the Customs Act, be deemed to be an amount owing to Her Majesty in right of Canada pursuant to that Act*; and"

(2) That paragraph 105(2)(a) of the said Act be repealed and the following substituted therefor:

"(a) where section 80 applies and the customs duties have not been paid, the manufacturer or processor is liable to pay *to Her Majesty in right of Canada* the amount obtained, *which amount shall, for the purposes of the Customs Act, be deemed to be an amount owing to Her Majesty in right of Canada pursuant to that Act*, and"

13. That subsection 107(1) of the said Act be repealed and the following substituted therefor:

"107. (1) Any person who is granted a drawback or refund of duties pursuant to the provisions of this Part, other than Division III, *III.1* or section 101, shall

be granted, in addition to the drawback or refund, interest thereon at the prescribed rate or at a rate determined in the prescribed manner in respect of each month or fraction of a month between the time that is ninety days after an application for the drawback or refund is made in accordance with this Part and the time the drawback or refund is granted."

14. That subsection 131(2) of the said Act be repealed and the following substituted therefor:

"(2) Subsection (1) ceases to have effect *on June 30, 1990.*"

15. That subsection 139(2) of the said Act be repealed and the following substituted therefor:

"(2) Subsection (1) ceases to have effect *on June 30, 1990.*"

16. That Schedule I to the said Act be amended by

(a) striking out subheading Nos. 4901.10, 4901.91, 4901.99, 4902.90, 4903.00, 4904.00, 4905.91, 4906.00 and 9106.10 and tariff item Nos. 2202.90.00, 4901.10.10, 4901.10.90, 4901.91.10, 4901.91.80, 4901.91.90, 4901.99.10, 4902.90.10, 4902.90.80, 4902.90.90, 4904.00.10, 4904.00.90, 4905.91.10, 4905.91.20, 4905.91.80, 4905.91.90, 4905.99.10, 4906.00.10, 4906.00.90, 8908.00.00, 9106.10.10, 9106.10.20 and 9106.10.90;

(b) striking out tariff item Nos. 4901.99.91, 4901.99.92, 4901.99.93, 4901.99.98, 4901.99.99 and their preamble "---Other:" and tariff item Nos. 4903.00.11, 4903.00.18, 4903.00.19 and their preamble "---Picture books:"; and

(c) inserting, in numerical order, the subheading Nos. and tariff item Nos. set out in Schedule I to this motion.

17. That tariff item Nos. 9820.00.00 and 9821.00.00 in Schedule I be amended by inserting the symbol "N/A" in the column "Most-Favoured-Nation Tariff" and in the column "General Preferential Tariff" opposite the description of goods of each of those tariff item Nos.

18. That the French version of Schedule I to the said Act be amended by striking out in tariff item No. 8518.40.00 the reference to "A" in the column "Staging Category" and by substituting therefor a reference to "C".

19. That Schedule II to the said Act be amended by striking out codes 1733, 1753 and 1754 and the reference to code 1753 in the notes immediately after code 1756 and by inserting, in numerical order, the codes set out in Schedule II to this motion.

20. That codes 9600, 9601, 9602, 9603, 9604, 9605, 9606, 9607, 9608, 9609, 9610, 9611, 9612, 9613, 9614, 9615, 9616, 9617, 9618, 9619, 9620, 9621, 9622, 9623, 9624, 9625, 9626, 9627, 9628, 9629, 9630, 9631, 9632 and 9633 in Schedule II to the said Act, be amended by inserting the symbol "N/A" in the column

"Most-Favoured-Nation Tariff" and in the column "General Preferential Tariff" opposite the description of goods of each of those codes.

21. Schedule VII to the said Act be amended by striking out code 9950 and by substituting therefor the code set out in Schedule III to this motion.

22. That code 9956 in Schedule VII to the said Act be amended by striking out the words following paragraph (d) thereof.

23. That any enactment founded on paragraphs 1 to 22 of this motion shall be deemed to have come into force on April 28, 1989 and to have been applied to all goods mentioned therein imported on or after that day and to goods previously imported that had not been accounted for under section 32 of the *Customs Act* before that day.

SCHEDULE I

Tariff Item	Description of Goods	Most-Favoured-Nation Tariff	General Prefer-ential Tariff	United States Tariff	Staging Category	Rates in Effect Prior to Rates Proposed in this Motion: Most-Favoured-Nation Tariff	General Prefer-ential Tariff	United States Tariff
"2202.90__	-Other							
2202.90.10	---*Non-alcoholic beer*	3.30¢ /litre	Free	2.90¢ /litre		17.5%	11.5%	15.7%
	On and after January 1, 1996			2.70¢ /litre				
	On and after January 1, 1997			1.30¢ /litre				
	On and after January 1, 1998			Free				
2202.90.90	---*Other*	17.5%	11.5%	17.5%	C	17.5%	11.5%	15.7%
39.26	Other articles of plastics and articles of other materials of heading Nos. 39.01 to 39.14.							
3926.90.60	---*Beak guards and blinders for pheasants*	Free	Free	Free		13.6%	9%	12.2%
49.01	Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets.							
4901.10.*00*	-In single sheets, whether or not folded	Free	Free	Free		Various*	Free	Free
4901.91.*00*	--Dictionaries and encyclopaedias, and serial instalments thereof	Free	Free	Free		Various*	Free	Free
4901.99.*00*	--Other	Free	Free	Free		Various*	Free	Free
49.02	Newspapers, journals and periodicals, whether or not illustrated or containing advertising material.							
4902.90.*00*	-Other	Free	Free	Free		Various*	Free	Free

* Free under Remission Order.

Tariff Item	Description of Goods	Most-Favoured-Nation Tariff	General Prefer-ential Tariff	United States Tariff	Staging Category	Rates in Effect Prior to Rates Proposed in this Motion: Most-Favoured-Nation Tariff	Rates in Effect Prior to Rates Proposed in this Motion: General Perfer-ential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: United States Tariff
4903.00	Children's picture, drawing or colouring books.							
4903.00.*10*	---Picture books	Free	Free	Free		Various*	Free	Free
4904.00.*00*	Music, printed or in manuscript, whether or not bound or illustrated	Free	Free	Free		Various*	Various*	Free
49.05	Maps and hydrographic or similar charts of all kinds, including atlases, wall maps, topographical plans and globes, printed.							
4905.91.*00*	--In book form	Free	Free	Free		Various*	Free	Free
4905.99.10	---Geographical, hydrographical or astronomical maps and charts	Free	Free	Free		10.2%*	Free	Free
4906.00.*00*	Plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes, being originals drawn by hand; hand-written texts; photographic reproductions on sensitized paper and carbon copies of the foregoing	Free	Free	Free		Various*	Free	Free
7013.39.20	---*Laminated glass tableware*	Free	Free	Free		20%* BPT 10%*	10%*	18%*
8908.00__	Vessels and other floating structures for breaking up (scrapping).							
8908.00.10	---*Stripped of salvageable articles or equipment*	Free	Free	Free		25%	25%	22.5%
8908.00.90	---*Other*	25%	25%	25%	C	25%	25%	22.5%
9106.10.*00*	-Time-registers; time-recorders	Free	Free	Free		Various	Various	Various"

* Free under Remission Order.

SCHEDULE II

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: Most-Favoured-Nation Tariff	Rates in Effect Prior to Rates Proposed in this Motion: General Preferential Tariff
"1495	*The following being foreign-owned, used prior to importation and on loan to Canadian foundries for the manufacture of metal castings:* *Foundry patterns and core boxes of heading No. 84.80;* *Investment casting dies (moulds);* *Related jigs and fixtures*	Free	Free	Various*	Various*
1697	*Chemicals and photomasks for the manufacture of semiconductor devices*	Free	Free	Various*	Various*
1698	*Satellites and satellite subsystems for testing; articles for use in the manufacture of satellites and satellite subsystems*	Free	Free	Various*	Various*
1733	Wall maps and charts of tariff item No. 4905.99.*90*	Free	Free	Free	Free
1754	Maps and charts of tariff item No. __4905.99.90 or 4911.99.90	Free	Free	Free	Free
2436	*Checking fixtures of tariff item No. 9031.80.20, being foreign-owned and on loan to Canadian manufacturers of automotive production equipment*	Free	Free	6.3%	Free
2499	*Articles and materials for use in the manufacture of upper atmospheric research vehicles*	Free	Free	Various*	Various*
2555	*Drugs for emergency treatment referred to in section C.08.010, Division 8 of the Food and Drug Regulations*	Free	Free	Various*	Various*
2556	*Drugs, including radio-pharmaceuticals, for investigation purposes, referred to in section C.08.005, Division 8 of the Food and Drug Regulations*	Free	Free	Various*	Various*
2557	*Placebos imported with the drugs of Code 2556 for use in studies involving those drugs*	Free	Free	Various*	Various*

* Free under Remission Order.

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: Most-Favoured-Nation Tariff	Rates in Effect Prior to Rates Proposed in this Motion: General Preferential Tariff
2875	*Lamps of tariff item No. 8539.22.00 for the manufacture of Christmas lighting sets or patio lighting sets* ..	Free	Free	12.6%**	8%**
2880	*Xenon lighting equipment, including arc lamps and ignitors; sheets of plastics for use therewith*	Free	Free	Various*	Various*"

* Free under Remission Order.

** Free under Remission Order except for patio lighting sets.

SCHEDULE III

Code	Prohibited Goods
"9950	Any live specimen of the mongoose family, including Galidia, Galidictis, Mungotictis, Salanoia, Suricata, Herpestes, Helogale, Donogale, Atilax, Mungos, Crossarchus, Liberiictics, Ichneumia, Bdeogale, Rhynchogale, Cynictis, Paracynictis, *and* Cryptoprocta *except if the Minister is satisfied, in accordance with the written advice of the Canadian Wildlife Service, that the specimen is for breeding, study or exhibition purposes, in confinement, by zoological institutions approved by the Canadian Wildlife Service.*"