Immediate release

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INCOME TAX WAYS AND MEANS MOTION TABLED IN PARLIAMENT

Finance Minister Paul Martin today tabled a Notice of Ways and Means Motion in the House of Commons to implement the income tax measures announced in the March 6, 1996 Budget.

The changes respecting personal income tax include: the Education Tax Credit; the Tuition Fee Tax Credit, the Credit for Infirm Dependants; the Child Tax Benefit; Charitable Donations; the Child Care Expense Deduction; Child Support Payments; RRSPs and RESPs; and the Overseas Employment Tax Credit.

The changes respecting business income tax include: Foreign Reporting Rules; Non-Resident Pensioners; Scientific Research & Experimental Development (SR&ED); Labour-Sponsored Venture Capital Corporations (LSVCCs); Flow-Through Shares; Resource Allowance; Resource Losses; Joint Exploration Corporations; Part VI Capital Tax and Insurance Corporations.

As well, some further changes are proposed to the amendments announced in the budget respecting labour-sponsored venture capital corporations (LSVCCs), the foreign reporting rules and the resource allowance. A brief summary of these changes is attached.

Mr. Martin noted that many helpful comments have been received from the public about these measures, a number of which are incorporated into the final version of the legislation.

References to “announcement date” should be read as referring to today’s date.

For further information:

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Summary of Changes

Labour-Sponsored Venture Capital Corporations (LSVCCs)

The budget proposed to implement a matching system under which the rate of the federal LSVCC credit for the 1997 and subsequent taxation years would be the lesser of 15 per cent and the rate of the provincial credit, subject to a 10-per-cent minimum rate with respect to purchases of shares of federally-registered LSVCCs. As a result of further consultations, shares issued by all prescribed LSVCCs will qualify for a 15 per cent credit, regardless of the rate of the provincial LSVCC credit provided with respect to the purchase of such shares.

Appendix B to the Explanatory Notes for the budget legislation also contains a new measure which prevents the 20-per-cent foreign property basket from being increased as a consequence of investments in debt issued by LSVCCs. This is appropriate because the amount of small business investments required by LSVCCs depend on their equity capital, rather than the amount of debt they issue.

Resource Allowance

Draft regulations released with the budget on "specified net royalties" created a regime whereby payers of "specified net royalties" were required to reduce their adjusted resource profits for resource allowance purposes by the full amount of "specified net royalties". However, recipients of "specified net royalties" were permitted to include only 50 per cent of "specified net royalties" received. As set out in Appendix A to the Explanatory Notes, the concept of a "specified net royalty" has been substantially revised in response to post-budget consultations with taxpayers, Revenue Canada and industry groups. The new rules will now apply to "specified royalties", rather than "specified net royalties", and generally in much more limited circumstances.

In addition, revisions to the draft regulations contained in Appendix A to the Explanatory Notes provide that the income of a taxpayer in the taxpayer's capacity as a coal mine operator is not excluded for the purpose of calculating resource profits for resource allowance purposes and for the purpose of computing accelerated capital cost allowance for mine operators.

Foreign Reporting Rules

Further to extensive consultations with taxpayers, a number of changes are proposed to the foreign reporting rules released on March 5, 1996, the most significant of which are as follows:

1. Extension of first filing deadline

There will be an extension of the first filing deadline for information returns required to be filed under sections 233.2 (transfers or loans to non-resident trusts), 233.3 (foreign investments over $100,000) and 233.6 (distributions from non-resident trusts) from April 30, 1997 to April 30, 1998. The first filing deadline for returns required to be filed under section 233.4 (foreign affiliates) will be extended to June 30, 1998. Returns will continue to be required for taxation years commencing after 1995.

2. Due diligence exception

A due diligence exception (section 233.5 of the Act) has been added to the reporting rules whereby a taxpayer will be exempted from the application of the penalty for omissions in an information return required to be filed under section 233.2 or 233.4 of the Act where the taxpayer exercises due diligence in attempting to obtain the required information and satisfies certain other conditions.

3. Penalty for failure to file for more than 24 months

The penalty for failure to file an information return required to be filed under any of sections 233.2, 233.3 and 233.4 of the Act for more than 24 months is reduced from 10 per cent of the cost of certain foreign property of the taxpayer to 5 per cent of the cost of such property. The penalty will apply only where the failure to file is done knowingly or is attributable to gross negligence.

4. Penalties for failure to file

The penalty for the simple failure to file an information return will be $25 per day for up to 100 days ($2,500 maximum) under existing subsection 162(7) of the Act. The larger penalties for failure to file an information return, i.e., $500 per month for up to 24 months and 5 per cent of the cost of certain foreign property after 24 months, will apply only where the failure to file is done knowingly or under circumstances amounting to gross negligence.

5. Exception for first-year residents

Individuals will not be required to file foreign property information returns for the year in which they first become resident in Canada (see new subsection 233.7 of the Act).

6. Reporting of foreign affiliates

An information return will be required to be filed only in respect of foreign affiliates of a taxpayer that are controlled foreign affiliates and foreign affiliates the shares of which are owned directly by the taxpayer or a controlled foreign affiliate of the taxpayer. There will also be an exception for dormant or inactive foreign affiliates, the criteria for which are being developed by Revenue Canada.

7. Foreign affiliate information return

There will be two foreign affiliate information returns: a detailed return for controlled foreign affiliates and a simplified return for foreign affiliates that are not controlled foreign affiliates. Significant reductions in the compliance burden have been achieved in respect of both returns by recasting the manner in which the information is to be provided to Revenue Canada.

8. Review of $100,000 threshold

The government will review the $100,000 threshold for the reporting of foreign investment property under section 233.3 of the Act after 1998. In the interim, Revenue Canada will assess both the compliance burden and its administration with a view to determining the appropriateness of the threshold.

It is expected that the foreign reporting information returns and accompanying Revenue Canada guides will be available early in the new year. Revenue Canada will make an announcement as to the date of their availability.