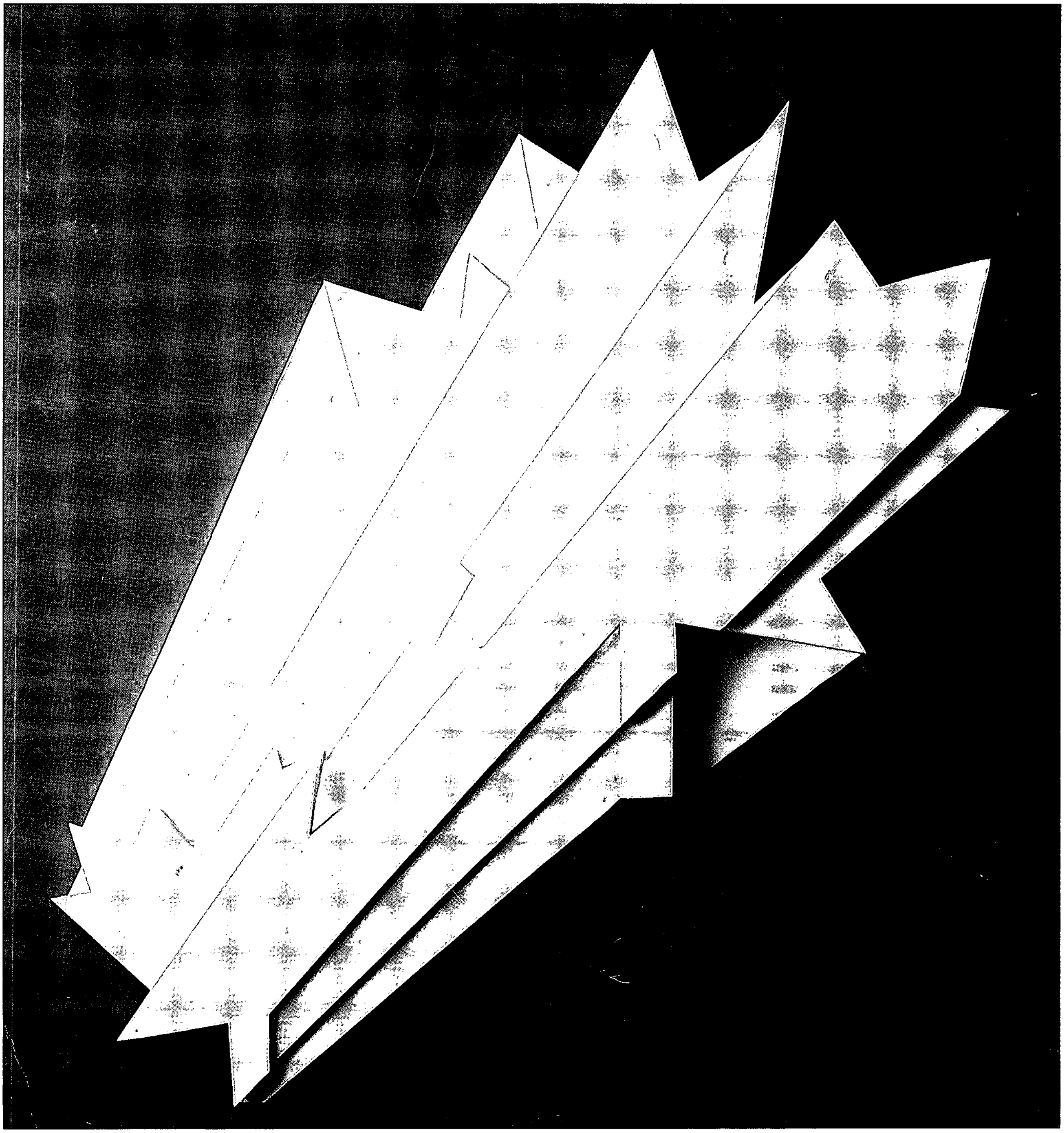
…g Economic Renewal

Budget Papers

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

February 26, 1986



Canada

Securing Economic Renewal

Budget Papers

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

Tabled in the House of Commons
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February 26, 1986

Department of Finance Canada
Ministère des Finances Canada

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I. The Government's Expenditure Plan

Introduction

Over the past year and a half the Government of Canada has put in place a new federal expenditure plan that reflects dramatic reductions in expenditure growth. This plan results from a reconfiguration of spending priorities and new management goals that are designed to ensure greater efficiency and effectiveness in government. All areas of government are being affected. The plan is described in the *Fiscal Plan* document that is part of this budget package. The details will be set out in the *Main Estimates*. This section summarizes the broad lines of the expenditure plan and provides supplementary information on the measures introduced in this budget.

This expenditure plan has been put in place to address a serious fiscal problem that has built up over the past decade. From 1975-76 to 1984-85, federal expenditures as a proportion of gross national product (GNP) rose from 22 1/2 per cent to 26 per cent while revenues fell from 19 per cent to 17 per cent of GNP. By 1984-85 the federal deficit had reached $38.2 billion, equivalent to 9.1 per cent of Canada's GNP.(1) This was by far the largest deficit recorded in the entire postwar period. The size of the Canadian deficit relative to our gross domestic product now ranks second only to Italy among the major member countries of the Organization for Economic Cooperation and Development (OECD).

Moreover, the prolonged series of large deficits in Canada led to a huge accumulation of public debt, reaching $199 billion by the end of fiscal year 1984-85 and growing at a rate of 22.7 per cent per year. The annual net interest bill on this debt now amounts to more than a quarter of federal revenues, compared with 5 per cent a decade ago. Quite clearly, this situation could not be allowed to deteriorate further. Major action was needed to bring the deficit down and reduce the growth of federal debt to a level in line with the growth rate of the economy.

The government is committed, as its first priority in restoring fiscal balance, to rigorous and effective control of government expenditures. To this end, the existing base of federal programs has been thoroughly scrutinized. A special Ministerial Task Force was established at an early stage to carry out a

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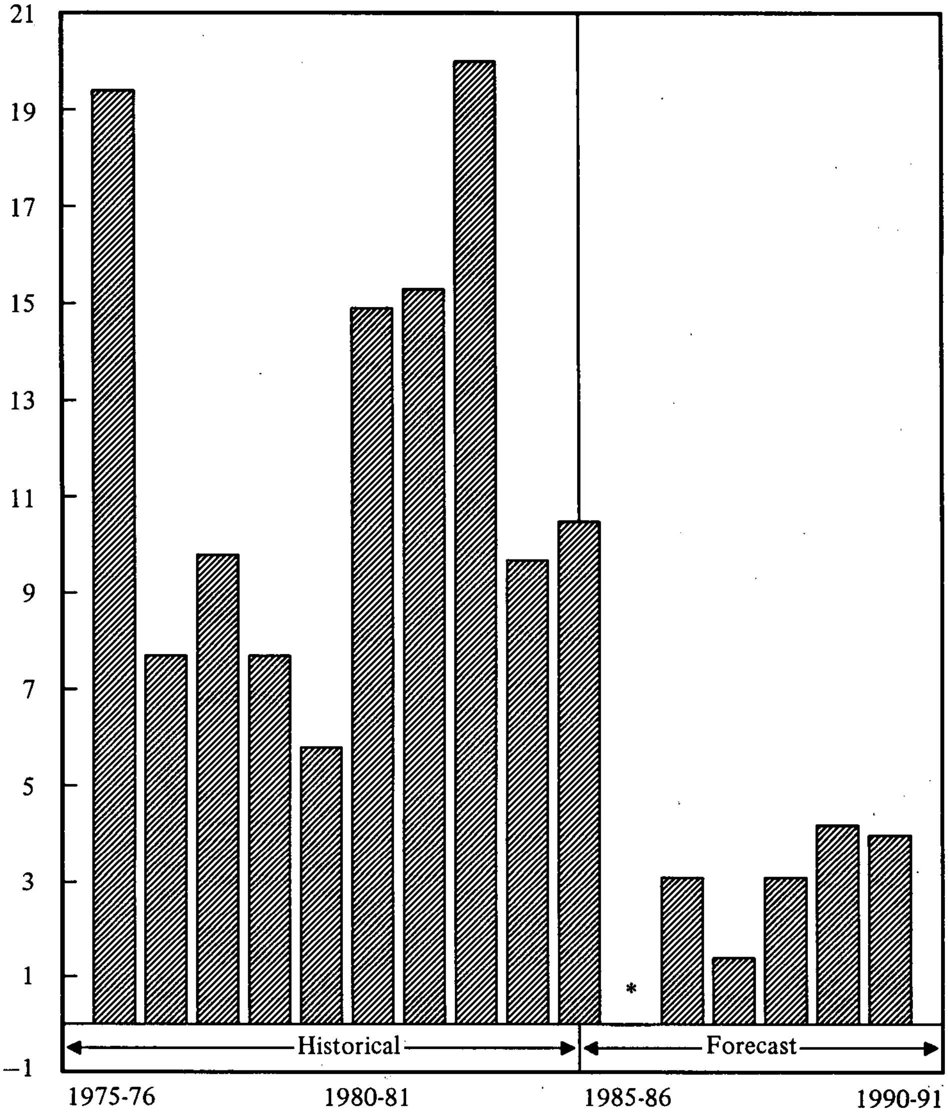
(1) All numbers in this section are presented on a revised accounting basis, as outlined in *The Fiscal Plan*. On the old accounting basis, the 1984-85 deficit was $36.9 billion, equivalent to 8.8 per cent of GNP.

Chart 1

Program Expenditure Growth

(per cent change)



*The percentage change in program expenditures is zero in 1985-86.

comprehensive program review. Independent advice was obtained from private sector advisors. This review process made a major contribution to the program reductions and improved management procedures which have been implemented.

Based on the most current information available it is estimated that the budgetary deficit in 1985-86 will be unchanged from the estimate made in the May budget.(2) Because of rigorous adherence to the control of program expenditures throughout the year, total spending is expected to be $1.1 billion lower than projected last May. This will offset a projected revenue shortfall of $1.1 billion compared to the May projections.

In 1984-85, expenditures on all government programs increased by 10.5 per cent over the previous year. In 1985-86, these expenditures are being held to the same level reached in 1984-85 (Chart 1). After allowing for inflation this represents a real decrease of about 4 per cent.

Spending on non-statutory programs, over which the government has a greater degree of discretion, will decline by $500 million in 1985-86 compared with last year. This is the first such decline recorded in more than 20 years. Over the next five years, non-statutory programs will grow by only 2.7 per cent per year on average, while total program spending will increase by only 3.2 per cent per year. In real terms, after allowing for inflation, program spending will decline significantly and by 1990-91 federal programs will account for the same share of GNP as they did in the early 1960s.

The expenditure control measures implemented to date, including those contained in this budget, will result in continuing and growing savings through the balance of this decade and beyond. In 1985-86, the gross impact of restraint measures will reduce expenditures by more than $6 billion from previously planned levels. Over time, the reductions to the expenditure plan will grow. By 1990-91, they will total more than $20 billion annually. The impact of expenditure reductions and continued tight management on Canada's public debt will be significant. The direct impact will be to reduce the rate of increase in the debt to effect savings of $78 billion by the end of the decade.

Review of Actions to Date: November 1984 to February 1986

The actions taken to bring expenditures under better control fall into two broad categories: (1) improving management procedures and increasing government efficiency and (2) scaling back or eliminating federal programs. A wide range of steps have been taken in both of these areas over the past year and a half (Table 1).

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(2) The estimated deficit on the old accounting basis for 1985-86 is $33.8 billion, exactly the same as projected last May.

Table 1

Gross Impact of Expenditure Reduction Measures Undertaken Since the Fall of 1984

	1985-86	1986-87	1987-88	1990-91	Cumulative impact, 1985-86 to 1990-91
			(millions of dollars)		
Management initiatives					
Reduction in person-years and overhead costs	1,066	1,847	2,247	3,463	14,400
Reserve reductions	1,335	1,104	1,565	3,020	11,771
Cost recovery	223	306	432	547	2,522
Privatization	60	300	*	*	360
Cash management	373	130	70	120	873
Real property management	56	310	50	50	566
Total management initiatives	3,113	3,997	4,364	7,200	30,492
Program reductions					
Agriculture	84	93	85	80	502
Communications	97	86	83	83	515
Employment and Immigration	372	232	294	294	1,780
Energy, Mines and Resources	815	1,206	1,671	1,280	8,183
External Affairs	233	248	458	936	3,142
National Health & Welfare	30	292	522	1,652	4,815
Regional Industrial Expansion	379	280	341	350	2,050
Science and Technology	71	73	80	54	386
Secretary of State	15	131	187	787	1,944
Transport	346	360	662	760	3,607
Treasury Board	85	85	85	85	510
Other departments	186	343	381	174	1,448
Total program reductions	2,713	3,429	4,849	6,535	28,882
Total direct expenditure reductions	5,826	7,426	9,213	13,735	59,374
Induced impact on debt charges	260	1,018	2,024	6,736	18,729
Total expenditure reductions	6,086	8,444	11,237	20,471	78,103

* No estimates yet available.

To improve government management, strict budget constraints have been applied to all government departments. The number of authorized person-years will be reduced by 2 per cent next year and by a further 1 per cent in each of the next four years so that, by 1990, the authorized size of the federal public service will be cut by 15,000 person-years. A general cut averaging 2 per cent of non-statutory expenditures (excluding defence and foreign aid) and amounting to $500 million will be implemented for 1986-87. In future years, funding for operations and maintenance will be allowed to grow by only 2 per cent per year from this reduced base, implying substantial real reductions, after inflation, over the remainder of the decade. In addition, the level of uncommitted funds held in reserve within the expenditure framework has been substantially scaled back. These measures are requiring an ongoing and comprehensive re-examination of program priorities within departments. Efficiency gains will be necessary and departments will be required to manage within their budgets. To facilitate the necessary adjustments, individual ministers will have greater flexibility to reallocate funds to meet unexpected requirements.

Federal assets and liabilities are being managed more prudently. Crown corporations are being privatized. For example, most of the government's financial interests in the Canada Development Corporation, the Northern Transportation Company Limited and the de Havilland Corporation have already been sold and additional sales are planned.

Surplus real property is being disposed of. Since the last budget, Canada Mortgage and Housing Corporation has sold the Habitat apartment complex in Montreal. In addition, the government has disposed of the former RCMP building in Montreal and land in north-central Toronto that had been acquired for the construction of a mail processing plant but had not been used for this purpose. Targeted for sale in 1986-87 are, among others, Block 56 and the old customs house in Vancouver, the old post office in Calgary, the Canlands block in downtown Ottawa (bounded by Queen, O'Connor, Albert and Metcalfe streets), several other Ottawa properties on Sparks Street and a block of land assembled in Halifax for the construction of a government office building that was cancelled in November 1984.

Federal cash flows are being more carefully controlled to maximize potential interest revenues on cash balances and minimize interest costs on borrowings. Rigorous new management procedures have been implemented to limit the government's exposure to the costs of defaults under future loan guarantees or other contingent liabilities.

Greater cost recovery is also being sought where feasible. Transportation services, inspection services, communications, government publications and several other areas provide opportunities for the government to realize a larger flow of revenues from those individuals or groups who benefit most directly from these services. For example, the government is establishing a new pricing system to cover the maps, charts and air photos produced by the Department of Energy, Mines and Resources and is recovering more of the costs from the users of federal airports. Prices charged by Statistics Canada for publications, CN Marine ferry fees, radio licence fees and food inspection charges have all been raised.

Direct program reductions provide the other major means by which the government is reducing expenditures. A great many programs have been cut or eliminated. Important examples include the Canadian Home Insulation Program, the Canadian Oil Substitution Program, the Petroleum Incentives Program, the Petroleum Compensation Program, nuclear research and development programs, the Industrial and Regional Development Program, the Shipbuilding Industry Assistance Program, the Katimavik Program, VIA Rail subsidies and the Cape Breton heavy water plants. The indexation factor for family allowances is being limited to the rate of increase in the consumer price index in excess of 3 per cent and the annual per capita growth rate for transfer payments to the provinces under the Established Programs Financing arrangements is being reduced by

Chart 2

Non-Statutory Expenditure Growth

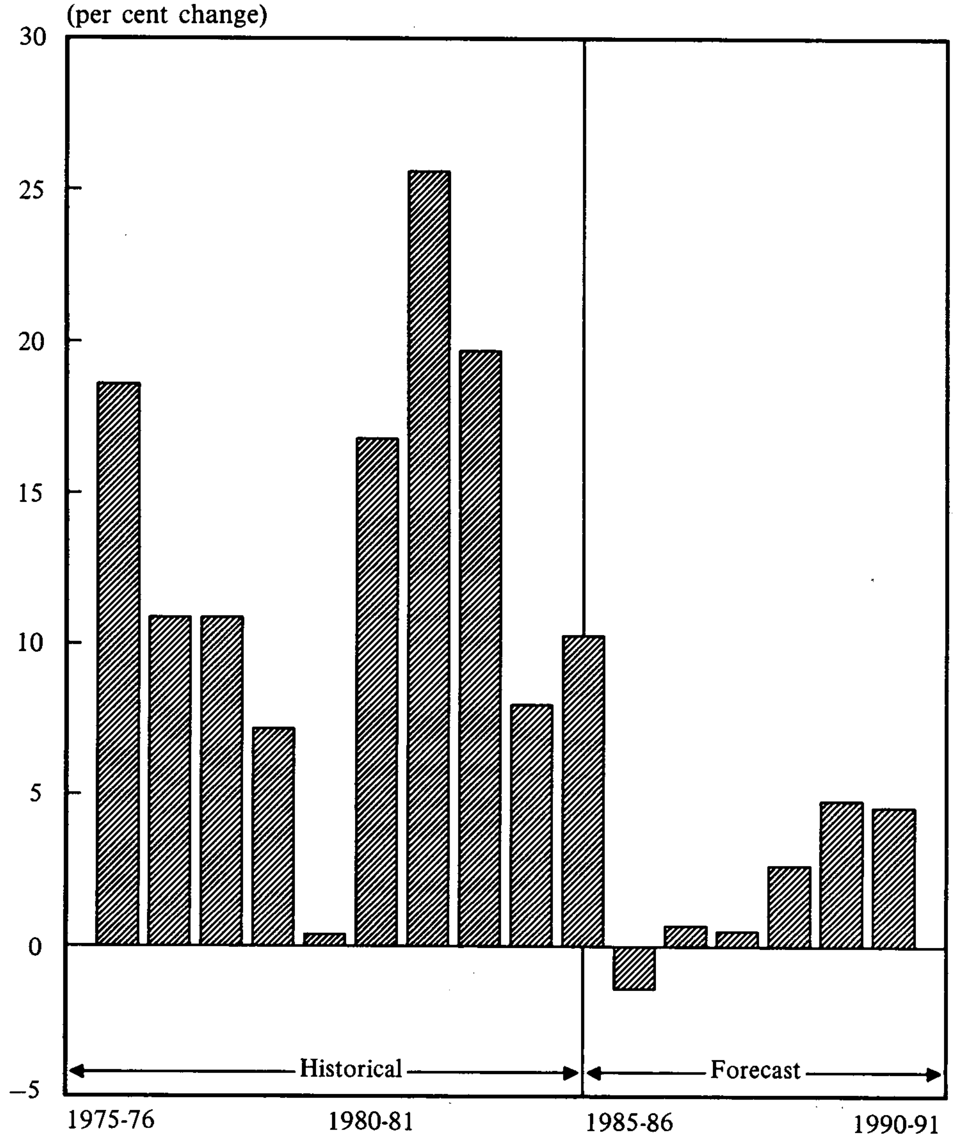
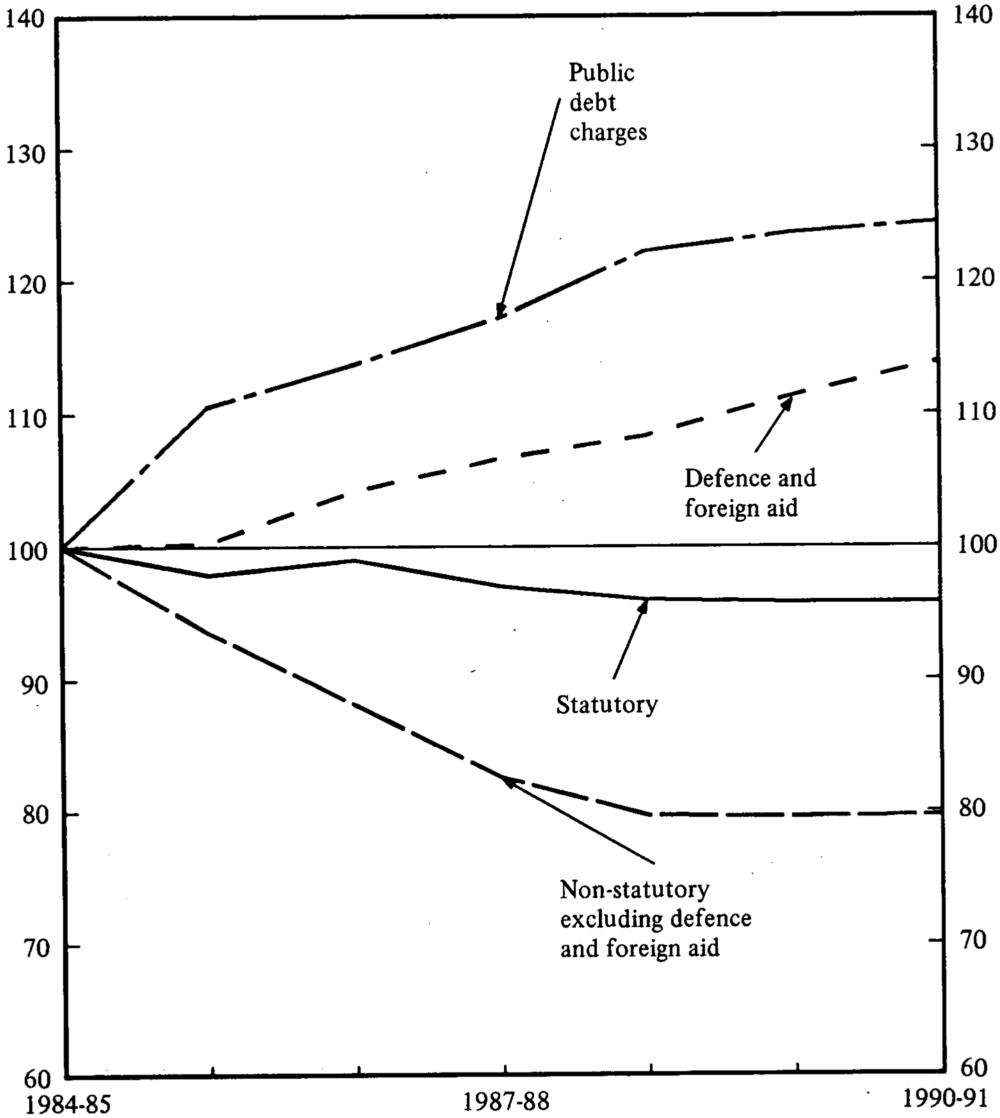


Chart 3

Government Expenditures In Constant Dollars 1984-85 = 100



2 percentage points. Canada's foreign aid and defence spending have also been restrained as part of the overall expenditure reduction effort.

The main program reductions introduced over the past year and a half are summarized by department in Table 1. With these reductions, total federal spending (including interest payments on the public debt) will rise by only 2.9 per cent this year and by only 3.4 per cent on average in each of the next two fiscal years (Table 2). Total federal spending on programs will be slightly lower this year than last year, before allowing for inflation, and will grow by only 2.3 per cent on average over the next two years. The rate of growth of program expenditures will be sharply reduced compared to previous years (Chart 1).

Federal spending on non-statutory programs – the part of federal spending over which the government has the greatest short-term discretion – will decline by 1.4 per cent this year and rise by only 0.6 per cent on average over the next two years (Chart 2). Federal spending on non-statutory programs other than defence and foreign aid will decline in absolute terms by 2 to 3 per cent in each of the three years 1985-86 to 1987-88. This represents an unprecedented degree of control over government spending (Chart 3).

Table 2

Budgetary Expenditure Projections[1]

	1984-85	1985-86	1986-87	1987-88	1990-91
			(millions of dollars)		
Budgetary expenditures	109,115	112,250	116,740	119,965	136,385
Public debt charges	22,456	25,610	27,375	29,370	35,095
Program expenditures	86,659	86,640	89,365	90,595	101,290
Statutory programs	48,419	48,930	51,375	52,414	58,286
Non-statutory programs					
Defence[2]	8,892	9,290	9,860	10,485	12,560
Official Development Assistance	2,058	2,045	2,364	2,540	3,105
Other	27,290	26,375	25,766	25,156	27,339
Total non-statutory programs	38,240	37,710	37,990	38,181	43,004
			(annual percentage change)		
Budgetary expenditures	13.1	2.9	4.0	2.8	4.1
Public debt charges	24.2	14.0	6.9	7.3	4.3
Program expenditures	10.5	0.0	3.1	1.4	4.0
Statutory programs	10.7	1.1	5.0	2.0	3.7
Non-statutory programs					
Defence[2]	12.0	4.5	6.1	6.3	5.9
Official Development Assistance	16.9	−0.6	15.6	7.4	6.7
Other	9.3	−3.4	−2.3	−2.4	3.8
Total non-statutory programs	10.3	−1.4	0.7	0.5	4.6

(1) All numbers are presented on the revised accounting basis. See Annex 1of the Fiscal Plan.

(2) Includes defence pensions, which are statutory.

Budget Measures

Expenditure Management

The government's expenditure plan traditionally includes a reserve provision to allow for expenditure requirements resulting from increased workload demands and to accommodate emergency and other unplanned spending requirements that may arise during the course of any given fiscal year. This reserve is managed by the Treasury Board and is allocated on the basis of demonstrated need after a critical assessment of the departmental capacity to absorb the expenditure requirement within existing approved budgets. This reserve allows for the continued operation and maintenance of existing, approved policies and programs in the face of increased requirements.

In November 1984, following its initial review of the expenditure framework, the government decided, as a first step toward tighter fiscal management, to reduce by $200 million the 1985-86 provision for operating contingencies made by the previous government. A further reduction of over $400 million in the 1985-86 operating reserve was made at the time of the May 1985 budget and departments have managed within the lower reserve allowances. This two-step reduction has therefore already produced permanent savings of about $600 million per annum over the planning period.

Based on the management results realized in 1985-86, the government has decided to impose a further permanent reduction in the annual planning allowance for contingencies. This decision coincides with the implementation of a new resource management approach by the Treasury Board. The onus will be placed on ministers and their departments to accommodate increased workload requirements through reallocations within approved budgets. This will necessitate greater scrutiny of departmental budgets by responsible ministers and senior departmental managers to identify low priority or discretionary expenditures that could, by cancellation or deferral, be reallocated to meet higher priority requirements that arise in the course of the year.

The limited reserves remaining in the expenditure framework will be allocated by the Treasury Board only to the most urgent and highest priority items.

The savings from this initiative amount to about $350 million in 1986-87 and $500 million in 1987-88. The cumulative impact of this reduction produces growing annual savings over time, amounting to $1.8 billion by 1990-91. Combined with the earlier expenditure reduction initiatives, this means that cuts in the allowance for contingencies will have produced savings amounting to $2.4 billion by 1990-91.

Two-Per-Cent Special Program Reduction

As part of its overall expenditure reduction and management improvement strategy, the government will be applying a special cut of $500 million to departmental budgets. This reduction is equivalent to 2 per cent of total non-statutory expenditures excluding defence and Official Development Assistance. Particular emphasis will be placed on grants and contributions, capital and general operations and maintenance items such as travel, rentals, professional services, advertising and printing. The President of the Treasury Board will be announcing shortly a plan to meet this 2-per-cent reduction target.

Official Development Assistance

Growth in Canada's planned Official Development Assistance (ODA) program will be reduced by $1.5 billion over the next five years. The savings will be $83 million in 1986-87 and $204 million in 1987-88. Previously planned growth rates were 18 per cent in 1986-87 and 11 per cent annually thereafter so that Canada could reach a target for ODA of 0.6 per cent of GNP by 1990. The government has concluded that such growth rates cannot be sustained when domestic programs are being tightly constrained. The government has therefore decided to delay the date for reaching the 0.6-per-cent target until 1995.

Even with the new expenditure plan, Canada will maintain a large and growing aid program sufficient to ensure that ODA disbursements remain at 0.5 per cent of GNP. To achieve this target in 1986, the allocation for ODA will increase by 15.6 per cent, or $319 million, to $2,364 million. Growth in subsequent years will reflect the increases in GNP.

As a result of the slower growth foreseen in ODA, the previously announced Trade and Development Facility will not be created within the Canadian International Development Agency. However, funds will continue to be available within the Export Development Corporation to meet the needs of competitive exporters for concessional financing to markets in developing countries. To the extent that these funds are used for development projects, they will be reported internationally as additional ODA above and beyond disbursements through traditional aid programs. Each such concessionally-financed project will be assessed and monitored using appropriate developmental criteria.

As the following table shows, the increases in the aid program remain rapid relative to other program expenditures. Canada will remain one of the most generous international aid donors. With the present ODA/GNP ratio of 0.5 per cent, Canada compares well with the OECD average of 0.36 per cent and with donors such as the United States at 0.24 per cent, the United Kingdom at 0.33 per cent and Japan at 0.35 per cent.

ODA and the Growth of Government Expenditures
Average Annual Percentage Changes, 1986-87 to 1990-91

	(per cent)
ODA	8.7
Other program expenditures	3.0
Other non-statutory expenditures	2.3

Defence

While defence remains a high priority area, even here it has been necessary to reduce the real growth rate for the defence budget by 1 per cent in both 1986-87 and 1987-88, to 2 3/4 per cent and 2 per cent respectively. This will yield savings of $100 million in 1986-87 and $185 million in 1987-88. For the years 1988-89 to 1990-91, the government intends, for planning purposes, to set defence spending growth at 2 per cent per year in real terms, consistent with the government's firm commitment to playing a meaningful and effective role with our NATO and NORAD allies. The government will make every effort to increase this level of financial commitment as our economic and fiscal circumstances permit.

Loan Guarantees

Effective expenditure management requires that decisions be taken in the context of expenditure limits with full consideration of their cost implications. Loan guarantees and other contingent liabilities represent one area where the government believes that tighter and more effective management is necessary.

The net impact on the government's accumulated deficit over the past five years, resulting from paying off guaranteed loans and providing supplementary financing, has been an increase of more than $2.7 billion. These payments include $1.8 billion in the case of Canadair, $0.6 billion in the case of de Havilland and $0.1 billion in the case of Massey Ferguson.

Accordingly, a number of guidelines for loan guarantee proposals have been put in place. Consistent with these guidelines, the government will need to be satisfied that there are reasonable prospects that a project is economically viable, and that the private sector, including the lending community, is willing to share in the risk. The recipients of new guarantees will, as a general rule, be charged a fee in recognition of the value conferred by the guarantees. Where appropriate, the government will strive to ensure that the terms of any loan guarantee agreement allow it to share in any extraordinary gains as a *quid pro quo* for its acceptance of risk.

In addition, reserves will be established within the government's balance sheet to offset the potential costs associated with new loan guarantees. These reserves, together with tighter management practices put in place, should ensure that defaults do not exert undue pressure on the fiscal framework.

II. Reinforcing Priorities

Regional Development

The November 1984 Agenda Paper stressed the need to enhance and draw upon the strengths of all regions in order to improve Canadian competitiveness in the international marketplace and to help build a solid basis for economic renewal. It was noted, in particular, that this challenge would require a sustained joint effort by the federal and provincial governments to harmonize policies and provide a more positive environment for the private sector to play its part.

Substantial progress has been achieved over the last year. The co-operative efforts of provincial and federal ministers responsible for regional development have helped establish a new climate of federal-provincial co-operation. Economic and Regional Development Agreements have been concluded between the Government of Canada and each provincial government, currently accounting for more than $3.8 billion in federal and provincial funding.

The Atlantic Enterprise Program

To enhance the rate of private sector job creation in the Atlantic region, including the Gaspé Peninsula, the government is launching a major new initiative, the Atlantic Enterprise Program.

Under this program, guarantees of loans totalling up to $1 billion and interest rate buy-downs of up to 6 percentage points will be made available to stimulate and support productive new private investment in the region. To avoid duplication with existing federal and provincial programs, the program will be limited to term loans of a minimum of $250,000. The sponsors of eligible projects will be required to share the risk. The normal level of government guarantee will be set at 85 per cent of the principal amount of the loan. The program will apply not only to manufacturing and processing but will also complement existing programs in related service sectors, tourism, and primary industries, in recognition of the important role played by these sectors in the Atlantic economy.

The Atlantic Enterprise Program will be supported by a private sector advisory committee, the Atlantic Enterprise Board. The board will consist primarily of persons from the region who are knowledgeable about local conditions and opportunities.

The Minister of Regional Industrial Expansion will be announcing the detailed objectives, criteria and operating procedures of this program.

Cape Breton Investment Tax Credit

The May 23, 1985 budget introduced a special tax credit for investments in qualified projects in the Cape Breton area. The credit of 60 per cent applies to a broad category of activities. At the time of the introduction of the credit, the Cape Breton Advisory Committee was formed to make recommendations to the government on development policy in Cape Breton.

A number of changes have already been made following preliminary recommendations of the committee. In response to the final recommendations of the committee, the budget proposes two further measures designed to improve accessibility to the Cape Breton investment tax credit.

The first proposal reduces the minimum required investment in depreciable property for a qualifying project from $50,000 to $25,000, effective February 26, 1986. This change will allow smaller projects to be eligible for the tax credit.

The budget also proposes to increase the refundable portion of unused Cape Breton investment tax credits earned in a year from 20 per cent to 40 per cent for large businesses. Small businesses already receive a 40-per-cent refund. This increase will benefit taxpayers who cannot make immediate use of the credit to reduce tax. All businesses, regardless of size, will now be assured of receiving 40 per cent of any unused tax credit as a refund in the year the credit is earned. The remaining portion of the credit can be carried forward for up to 10 years. This change will be effective for eligible property acquired after May 23, 1985 and before 1989.

Benefits for Northern Residents

Residents of the North and designated isolated posts are currently exempt from tax on employer-provided housing and travel benefits. The exemption is provided through remission orders which are scheduled to expire at the end of 1986. The budget proposes a new and permanent regime of tax benefits for the residents of these locations.

Effective January 1, 1987, all individuals who reside in the North and in isolated posts for a continuous period of not less than six months will be provided a special housing deduction in computing their taxable income. The deduction for each individual will be 20 per cent of net income up to a maximum of $225 a month. The maximum deduction can be increased to $450 for each month where the taxpayer maintains and resides in a self-contained domestic dwelling. However, where another individual resident in that dwelling, including the taxpayer's spouse, also claims a housing deduction for a month, the taxpayer's deduction will be restricted to $225 for that month.

The housing deduction will apply only for the number of full months in the year during which the taxpayer resided in the North or in a designated isolated post.

Criteria related to distance, access and population and other factors are used to define "isolated posts" under the current system of housing and travel benefit tax exemptions. These same criteria will continue to apply under the new tax rules. In general, a location must have a population of less than 10,000 in order to be considered an isolated post. In addition, other factors such as climate, year-round road access and distance from major population centres are taken into account.

This deduction will replace the exemption now provided by way of remission orders for employer-provided housing benefits in these locations. As a result, employees will be required to include in their income the value of any such benefits received from the employer.

By extending this housing deduction to all individuals, including employees not currently receiving housing benefits through their employer, as well as the self-employed and pensioners, the new rules extend an improved measure of tax assistance.

The budget also proposes a tax deduction for medical and vacation travel provided by an employer to employees in such locations, effective January 1, 1987. In the case of vacation travel, the deduction will be allowed for the cost of the return economy airfare to the nearest designated city for two trips per year for the employee and his or her family. Cash payments by an employer, other than reimbursements for actual expenses incurred, will not qualify for this deduction. The limit of two trips per year will not apply to travel for medical purposes.

Research and Development: Increased Support for the Granting Councils

The federal government plays a major role in supporting university-based research and the development of highly qualified personnel in Canada through the operations of its three granting councils: the Natural Sciences and Engineering Research Council, the Medical Research Council and the Social Sciences and Humanities Research Council. These councils, composed of members appointed from the scientific and lay communities, administer federal grants and scholarships awarded to university researchers and graduate students. The three councils currently provide funding support to some 25,000 researchers and graduate students in universities across Canada.

In fiscal year 1985-86, the granting councils had a total budget of about $537 million. The government has decided to augment this funding in two ways. First, the government will provide an additional $300 million in core funding to the councils over the period to 1990-91 to ensure that, at a minimum, funding does not fall below 1985-86 levels. In 1986-87, this core funding contribution will amount to about $78 million and will bring the councils' funding base to about $560 million.

Second, the government is also prepared to add significantly to this core funding, in co-operation with the private sector. Beginning in the 1987-88 fiscal year, the government will match, on a dollar-for-dollar basis, incremental private sector contributions received by the granting councils, to an annual maximum increase of 6 per cent of each council's budget in the previous year. A consequential income tax change will be made to ensure that the private sector participant will be entitled to research and development tax treatment for his contribution to the extent that the contribution finances research and development which is related to his business, and the results are available to him for use in his business. Other contributions to such councils will be treated as gifts to Her Majesty and as such will be deductible in computing the donor's taxable income.

If the private sector responds fully, new private sector and matching federal funds could increase each council's budget by 12 per cent in each year from 1987-88 through to 1990-91. This would increase resources available to the councils from $537 million in 1985-86 to about $850 million in 1990-91.

The full participation of the private sector would result in an increase of more than $1 billion in total resources available to the councils over the balance of this decade. This innovative financing method provides an incentive for the private sector and university researchers to pursue projects of mutual interest, thereby improving the R&D contacts between the business and university communities and enhancing the application of Canadian scientific knowledge to our industrial needs.

Support for Agriculture

Farm Financial Assistance Programs

A number of Canadian farmers are facing financial difficulties resulting from the high level of debt-financed capital investment in the late 1970s and the high interest rates of the early 1980s. Many farmers in this situation have reasonable prospects of viability in the medium to long term, but require financial assistance now. In response to this need, the budget proposes a package of measures that will provide support to the agricultural community. These measures recognize the concerns expressed at the November 1985 First Ministers' Conference. They have been developed following extensive consultations by the Minister of Agriculture with his provincial counterparts and with representatives of the farm community.

Commodity-Based Mortgages

The federal government has directed the Farm Credit Corporation (FCC) to establish a $700 million loan program to make commodity-based mortgages available to existing FCC clients in need. For farmers with substantial debt problems but with reasonable long-term prospects, the commodity-based mortgages will be made available at a basic interest rate of 6 per cent. Changes in the principal of the mortgages will be determined by a formula based on farm commodity prices. These mortgages will therefore start out with low monthly payments which will increase only as commodity prices rise and the farmer's ability to pay improves. With reasonable commodity price increases over the 10-year term of these mortgages, the cost to farmers will not be significantly different than with conventional financing. However, the mortgages will provide the up-front assistance these farmers need.

While priority will be given to farmers in greatest need, the program will also provide for more modest assistance for farmers with less substantial but still serious debt problems.

This program is innovative and responds to requests from the farm community for the development of financial instruments which take into account the special characteristics of the sector, including income volatility.

Farm Debt Review Panels

Many farmers are currently facing insolvency. In light of this situation, the government will introduce legislation to establish Farm Debt Review Panels. These panels will be composed of individuals knowledgeable in farming and financial matters and will provide an advisory service to farmers. The legislation will ensure a full and impartial review of the farmer's financial situation. In this review, the panel will establish whether an arrangement between the farmer and his creditors is feasible and will aim to facilitate a voluntary arrangement between them.

Rural Transition Program

The government is also taking measures to ease the transition for those farmers who must seek alternative employment. The Canadian Rural Transition Program is being created to offer farmers job counselling and retraining, in addition to interim financial assistance. Details of this program will be announced shortly by the Ministers of Agriculture and Employment and Immigration.

The farm financial assistance measures outlined above represent an additional federal financial commitment to Canadian farmers of $65 million this year and $130 million next year.

Tobacco Farmers

Over the past few years, Canadian tobacco consumption has fallen substantially in response to the increasing awareness of the health hazards related to smoking. This has had a negative financial impact on tobacco farmers. The government is prepared to assist tobacco farmers in responding to this changing market environment. The Minister of Agriculture will be consulting with his provincial counterparts to establish a program that will provide financial assistance for tobacco producers to diversify their production to alternative crops.

Fuel Tax Rebate

The government has decided to extend for one year, to January 1, 1988, the fuel tax rebate of three cents a litre which is available for gasoline and diesel fuel for off-highway use in commercial activities by primary producers. The government recognizes that the farming community, and other primary producers, have had difficulty in determining their fuel tax rebate entitlements because of the need for separation of on-highway and off-highway fuel use. The Minister of National Revenue will shortly be issuing new guidelines to simplify this calculation so as to reduce the paper burden for eligible claimants.

The extension and revisions to the fuel tax rebate will involve an annual cost to the government of $120 million, most of which will directly benefit farmers.

The measures described in this section provide significant additional support to farmers and will substantially strengthen the financial position of the farm sector. However, solutions to farm problems must be co-ordinated with the provinces, many of which have already acted, and with the private sector. In implementing these measures, therefore, the Minister of Agriculture will be working closely with the private sector and his provincial colleagues.

Support for Small Business

Recognizing the significant role played by small businesses in creating jobs, the May 1985 budget introduced a number of measures to facilitate venture capital financing, to improve cash flow, to promote enterprise and to increase the return to entrepreneurs. These measures have helped to foster a positive climate for risk-taking and investment, and have contributed to Canada's enhanced economic growth and job creation over the past year.

The budget proposes further tax changes which will provide important benefits to small business:

- As part of the general changes proposed to the taxation of dividends, the existing 12 1/2-per-cent tax on dividend distributions by small businesses will be repealed, effective January 1, 1987. This will allow a major simplification of the tax system for small businesses. It will also facilitate the transfer of funds among small business members of corporate groups. Further details are provided in the section entitled Tax Treatment of Dividends.

- In addition, as part of the overall restructuring of the corporate income tax, the low tax rate on active small business earnings will be reduced in stages from 15 to 14 per cent, effective July 1, 1987, and to 13 per cent effective

July 1, 1988. In addition, the applicable rate on Canadian manufacturing and processing income of small business corporations will be reduced to 8 per cent effective July 1, 1987.

- The budget also proposes to extend the current tax rules that provide deductions for allowable business investment losses incurred as a result of investments in the shares or debt of small Canadian businesses. Further details are provided in the section entitled Small Business Corporations.

The government also proposes to increase the lending ceiling of the *Small Business Loans Act* by $1.5 billion to a total of $2.5 billion. This program enables small businesses to obtain loans, guaranteed 85 per cent by the government, at an interest rate of 1 per cent over prime lending rates. The loan proceeds can be used to purchase equipment; purchase, build, or improve business premises; or buy land for the operation of a business. Over the past year, more than 34,000 small businesses have benefited from this program.

Social Assistance Measures

Prepayment of the Child Tax Credit

To provide timely assistance to Canadian families and to reduce the need for tax discounting, the government is proposing a system of advance payments of the child tax credit for the 1986 and subsequent tax years. A prepayment of the 1986 child tax credit amounting to $300 per child will be made in November 1986 to eligible claimants who had family incomes of $15,000 or less in 1985. This prepayment amounts to about two-thirds of the maximum child tax credit of $454 per child for 1986 which would otherwise be payable after individuals file returns early in 1987. Almost one million claimants will benefit from the prepayment. Prepayment cheques will be issued by Revenue Canada based on information provided on 1985 tax returns. No applications for the prepayment will be required. The prepayment will be made to the person, usually the mother of the child, who receives the monthly family allowance cheque.

Payment of any remaining credit will be made following the filing of the 1986 tax return, based on information provided in the child tax credit application for that year. If the claimant is entitled to a smaller credit than the amount of prepayment, the excess will be recovered at the time of filing of tax returns. This particular form of prepayment system will be reviewed and may be modified in later years, based on experience gained.

Refundable Federal Sales Tax Credit

A refundable federal sales tax credit will be introduced for lower-income families to better target assistance to those in need. The credit will be $50 for each individual who, at the end of the year, was married, had a child or was 18 years of age or over, $50 for the individual's spouse with whom he or she resided at the end of the year, and $25 for each person under age 18 at the end of the year who is either a child of the individual or a person claimed as a dependant of the individual. The credit will be refundable so that families who pay no federal income tax will receive the full benefits. The credit will be paid in full where the individual has up to $15,000 of family net income as defined by the tax rules. Credits will be reduced by 5 per cent of family income in excess of that amount. Thus, for example, a two-parent, two-child family, will be entitled to a maximum credit of $150 but this will be reduced where the family income is between $15,000 and $18,000. Where such a family has income in excess of $18,000, no credit will be payable. Credit entitlements for families at various income levels are shown in the table. Over 4 million Canadian families and individuals will receive credit benefits; almost 90 per cent of credit recipients will receive full benefits. The credit will be payable for the 1986 and subsequent tax years and will be payable to eligible individuals following the filing of their tax returns early in 1987. It will reduce federal revenues by $330 million in a full year.

In determining benefits for a year, the taxfiler and his or her spouse will aggregate credits with those of their children or other dependants under age 18 at the end of the year. Unmarried persons aged 18 or over must file for credits on their own behalf. Family income for determining the credit entitlement will include the income of the taxfiler and his or her spouse.

To claim the credit, individuals must be resident for tax purposes in Canada throughout the year. An individual who becomes separated or divorced during a year will determine his or her entitlement to the credit based on his or her income.

Federal Sales Tax Credits by Family Size

Family net income	Single person	Married: number of children under age 18				
		None	One	Two	Three	Four
		(dollars)				
15,000 or less	50	100	125	150	175	200
16,000	–	50	75	100	125	150
17,000	–	–	25	50	75	100
18,000	–	–	–	–	25	50
19,000	–	–	–	–	–	–

Disability Deduction

Disabled individuals are allowed a deduction of $2,610 in 1986 in computing their taxable income. The May 23, 1985 budget extended this deduction to individuals with severe cardio-respiratory failure, mental retardation, profound bilateral deafness and a range of other severe disabilities.

The budget proposes to increase the disability deduction by $250 effective for the 1986 and subsequent taxation years. This change will increase the amount to

$2,860 for 1986, which will be increased by the underlying factor for subsequent years. It will benefit about 185,000 individuals.

Support for Culture

Cultural Initiatives

The government is announcing the allocation of an additional $75 million per year beginning in 1986-87 to fund a number of cultural initiatives. The new funding represents an increase of almost 6 per cent in the support the federal government provides to cultural activities.

The specific initiatives to be funded are:

- **Motion Pictures and Videos**

  The government will provide $33 million in funding in 1986-87 to support the production and distribution of high quality Canadian feature films in domestic and world markets. This new program will be administered by Telefilm Canada. Funds will be used to support all phases of the production and marketing of Canadian films, largely through the provision of capital. This program responds to the recommendations of the Film Industry Task Force (Roth-Raymond) which reported in December 1985.

- **Book Publishing**

  The government will make available $13 million in 1986-87 to support a new Book Publishing Development Program which will replace the current program which expires on March 31, 1986. The funds will also be used to implement new programs designed to assist in the publication and sales of works by Canadian authors. Support will be provided to individual firms, to the book publishing industry, to national trade organizations and to the Canada Council.

- **Music and Recording Industries**

  As part of the new funding for cultural initiatives, $5 million will be allocated in 1986-87 to assist the Canadian recording industry to provide and market, at home and abroad, Canadian recorded music, music video products and radio programming. The funds will be used to encourage the private sector to take advantage of new technologies and to provide Canadian talent with additional opportunities for creative expression and wider access to audiences.

- **Assistance to the Performing Arts**

  An additional $10 million will be allocated to the Canada Council in 1986-87 to increase its grants program, including support for performing arts organizations and, through its touring office, the provision of wider access to the performing arts in all regions of Canada.

- **Public Use Payments to Canadian Authors**

  The government will provide up to a total of $3 million in 1986-87 to compensate Canadian authors for the use of their works through public libraries, without the payment of royalties. The program will be under the aegis of the Canada Council and will be administered by a board of trustees.

- **Public Archives**

  The government will provide an additional $7 million in 1986-87 to allow the Public Archives to improve service. Canadians will benefit from this initiative through a consolidation of present activities and through a variety of new initiatives aimed at making archival material more complete and accessible.

- **Library and Information Networking**

  A total of $4 million will be allocated in 1986-87 to develop means of electronic sharing of information contained in Canadian library data bases. This will help to provide more cost-effective and faster service to users.

Both the public archives and the library and information networking programs will be joint federal-provincial efforts.

Further details on the initiatives being announced will be provided by the Minister of Communications.

Canadian Film and Videotape Production

Several changes have been announced to assist in the financing of Canadian film and videotape productions. The capital cost allowance (CCA) claimed by an investor in qualifying Canadian film and videotape productions will not be reduced in cases where sale or licence agreements constituting a revenue guarantee have been provided by a licensed broadcaster or a *bona fide* film or videotape distributor. This will apply to films and videotapes commenced after 1984.

Other changes will make the CCA film regulations conform more closely with other federal statutes dealing with Canadian content criteria. They will apply to films and videotapes commenced after 1985 and will provide a single set of criteria for qualifying productions regardless of their running time. Many of the present criteria will be retained. The amendments will also provide that costs not related to production, such as legal, accounting and brokerage expenses, will not be considered in the calculation of the 75-per-cent cost criterion applying to production services provided by Canadians.

The definition of "Canadian" that applied prior to 1982 is being reinstated, retroactive to January 1982, to remove an unintended discrimination against landed immigrants.

Labour Market Initiatives

Training and Employment Programs

The government is announcing the allocation of an additional $800 million in 1987-88 to the Canadian Jobs Strategy. This Strategy is the federal government's new approach to skill development and job creation. It was announced, following extensive consultations with the provinces and territories and the private sector, at the First Ministers' Conference in Regina in February 1985. The new training and employment programs help to meet individual needs in a fast-changing and challenging labour market. These flexible and innovative programs have been developed and are delivered in co-operation with provincial and territorial governments and with the private sector.

The Canadian Jobs Strategy emphasizes the importance of linking training with ongoing economic activity and real jobs so that Canadians can secure lasting and productive employment. To provide a framework for action and for provincial and private sector involvement, six programs have been developed. Each program combines both training and job creation elements and addresses a specific problem encountered in the labour market. The programs are:

- the **Skill Investment** program, which assists workers affected by technological change;
- the **Job Development** program, which addresses the problems of the longer-term unemployed;
- **Job Entry**, which is designed to help youth and women returning to the labour force make the transition from school or home into the labour market;
- the **Skill Shortages** program, which provides financial assistance to employers to equip workers with skills that are in short supply;
- the **Community Futures** program, which extends new opportunities to workers in declining communities by integrating labour adjustment support and industrial development and by encouraging private sector initiatives; and,

- the **Innovations** program, which provides financial assistance for pilot and demonstration projects which test new solutions to labour market problems.

In each of the 1985-86 and 1986-87 fiscal years, the government allocated $900 million over and above the resources already available for training and employment programs to implement the Canadian Jobs Strategy.

Since the government's initial announcement of the new Strategy, there has been a substantial improvement in the economy and unemployment has continued to decline. To continue the contribution of the Canadian Jobs Strategy programs to this trend, the government is now announcing the allocation of an additional $800 million to the Strategy in 1987-88. With this funding, and the enhanced employment initiatives for social assistance recipients, total spending on federal labour market programs is expected to be $1.8 billion in 1987-88.

This additional funding demonstrates the government's commitment to maintaining the momentum of the Canadian Jobs Strategy. It will maintain the co-operative approach with the provinces and territories and the private sector to create new opportunities for employment and skill development. The government's financial commitment at this early date will also allow the federal government as well as provincial, territorial and private sector participants in federal job creation and training programs to continue to plan their labour market initiatives on a multi-year basis.

Program for Older Worker Adjustment

The government is announcing funding for a Program for Older Worker Adjustment (POWA). This is a new initiative which will be developed with the provinces to assist older workers who lose their jobs through major layoffs or plant closures and who have no immediate prospects for re-employment. POWA will replace the existing Labour Adjustment Benefit (LAB) program which provides income support to older workers laid off in designated industries and communities and which expires in August 1986. The federal government is allocating up to a total of $125 million to this new program over a four-year period. By the end of the decade, it is expected that annual federal support could amount to about $55 million.

The Minister of Labour has been discussing POWA with his provincial counterparts and with labour and business. Program details of POWA, including benefit levels, eligibility criteria and provincial and private sector participation will be developed by the Minister of Labour following further consultations with the provinces, business and labour.

Technological change, shifts in market demand, resource depletion and a variety of other factors all create the need for ongoing adjustment in the mix of industries, occupational skills and the location of employment. Quite often older workers, a growing demographic group, are particularly affected by these changes. A special program of assistance for older workers is therefore needed, since training, wage subsidies, mobility allowances and other adjustment measures are often not the appropriate vehicles for providing assistance to such individuals. This special programming for older workers complements other existing labour adjustment programs included in the Canadian Jobs Strategy, such as the Community Futures program.

The LAB program has operated since 1972. However, due to its highly selective focus, LAB has been able to deal with only a small number of older workers who require this type of assistance. Moreover, as an exclusively federal program, LAB has not provided the opportunity for an integrated and comprehensive approach in which provincial governments and employers can contribute to assisting with older worker adjustment.

Although LAB is scheduled to wind down and be replaced by POWA, expenditures under LAB will nevertheless continue for a number of years, since individuals who have been declared eligible for benefits under the LAB program can continue to collect them until retirement. As a result, total federal government expenditures for older workers under POWA and LAB will increase from $75 million in 1986-87 to somewhere in the order of $95 million in 1990-91, a total of more than $425 million over the next five years.

Enhanced Employment Initiatives for Social Assistance Recipients

The federal government and the provinces are jointly undertaking new initiatives to improve the employment prospects for individuals receiving social assistance under the Canada Assistance Plan (CAP). The federal Ministers of Health and Welfare and of Employment and Immigration announced a seven-point federal-provincial agreement to this effect on September 18, 1985. This agreement is a major step by both levels of government towards ensuring that social assistance recipients have the opportunity and encouragement to find meaningful employment.

To achieve the objectives of the federal-provincial agreement, the federal government is announcing the allocation of up to $100 million per year for the three years 1986-87 to 1988-89 to fund special programs for social assistance recipients. These funds will be allocated on an experimental basis to the Canadian Jobs Strategy or equivalent provincial programs. The funds will be matched by provincial funds, thus providing up to a total of $600 million for these purposes over the three-year period. It is expected that this program will be successful in reducing the need for federal and provincial social assistance payments under the Canada Assistance Plan by similar amounts.

The Ministers of National Health and Welfare and Employment and Immigration, in collaboration with their provincial counterparts, are currently designing the new training and other programs, establishing eligibility criteria and developing methodologies for evaluating the programs. The precise levels of participation in these programs will be determined in consultation with individual provinces and will be a function of the design of the programs. Further details will be made available by the ministers responsible for these programs.

III. Improving the Tax System

Changes to the Corporate Income Tax System

A discussion paper, *The Corporate Income Tax System: A Direction for Change*, was released with the May 23, 1985 budget. This paper identified a number of problems with the current corporate income tax system. The system contains many special tax provisions which serve desirable ends but which, in combination, can have the effect of overriding the market signals that should determine the investment decisions of business. Different investments and different business sectors face widely different tax rates. In addition, the accumulation over time of unused incentives by firms has led to pressure to transfer such unused tax credits and deductions to other taxpayers through a variety of arrangements. Governments have reacted with a series of complex changes to the tax system over the last decade. Finally, the very number of special provisions is itself a source of complexity.

The discussion paper outlined a direction for change that was designed to address these problems by moving to a system which combined lower statutory corporate tax rates with lower write-offs and tax credits. While special incentives would remain, the tax system would have less influence on the investment decisions of business, and the tax system would be simplified.

As a first step in implementing the changes outlined in the *Direction for Change* paper, the budget proposes to reduce the investment tax credit and to eliminate the inventory allowance. These changes will be accompanied by a reduction in the statutory rates of corporate income tax. They will reduce distortions by spreading incentives, through lower tax rates, to a broader range of sectors, while preserving special low tax rates for the small business and manufacturing sectors.

Corporate Income Tax Rate Reductions

A major element in the restructuring of the corporate income tax is the proposal to reduce the statutory corporate income tax rates on business income.

The corporate tax rate reductions will be phased in over a three-year period beginning in 1987. By the end of the transition period, the basic federal corporate income tax rate will be reduced from 36 to 33 per cent.

In recognition of the fact that the manufacturing sector currently derives particular benefit from the investment tax credit, which is being reduced, a

4-percentage-point tax rate reduction will apply to manufacturing income. The current federal tax rate of 30 per cent for such income will be reduced to 26 per cent, seven percentage points lower than the 33-per-cent rate applicable to other business income.

Tax rates will also be reduced for small business income. The basic tax rate for small business will be reduced from 15 to 13 per cent. Manufacturing income of small business will be subject to an 8-per-cent corporate income tax rate at the federal level, down from the current 10 per cent.

The following table shows the phase-in for the tax rate reductions. All of the rate reductions will be effective on July 1 of each year.

Table 1

Federal Corporate Income Tax Rate Changes (Effective July 1 of Each Year)

	Current Rates	1987	1988	1989
	(per cent of taxable income)			
Manufacturing business	30	28	27	26
Other business sectors	36	35	34	33
Small manufacturing business	10	8	8	8
Other small businesses	15	14	13	13

While the basic federal tax rate on corporate income will be reduced from 36 to 33 per cent by 1989, the present rate of tax on income other than active business income of Canadian-controlled private corporations will be maintained at 36 per cent so that there will be no resulting change in the present refundable tax mechanism for these corporations. In addition, the basic federal rate of tax on personal services businesses will be maintained at 36 per cent.

Investment Tax Credit

Current System

The investment tax credit was introduced in 1975 for acquisitions of depreciable property used in Canada in the manufacturing, resource, farming and fishing sectors. The general rate is now 7 per cent with a higher rate of 10 per cent for property used in Manitoba, Saskatchewan, the Northwest Territories, Yukon and northern portions of British Columbia, Alberta, Ontario and Quebec. A 20-per-cent rate applies in the Atlantic region (which includes the Gaspé Peninsula). The credit has also been extended to other activities such as research and development (R&D), transportation and construction and high-cost exploration. The rate of credit for R&D is now 20 per cent (30 per cent for R&D done in the Atlantic region) with a 35-per-cent rate applicable to small businesses. Investment in transportation and construction equipment earns the basic 7-per-cent credit rate in all areas of the country.

A special 50-per-cent investment tax credit was introduced in 1980 for depreciable property used in manufacturing in selected areas across the country. The May 23, 1985 budget extended this credit, initially due to expire at the end of 1985, to the end of 1986. A special 60-per-cent tax credit for investment in Cape Breton was also introduced at that time.

Proposed Changes

The budget proposes a number of changes to the investment tax credit:

- The general investment tax credits of 7 and 10 per cent and the 7-per-cent credit for transportation and construction will be phased out by 1989.
- The investment tax credit will remain at 20 per cent in the Atlantic region for qualifying investments in agriculture, forestry, fishing, mining, the oil and gas sector, and manufacturing. Effective for property acquired after February 25, 1986, this credit will also be extended to the offshore of the Atlantic region, where the rate is currently 7 per cent. The rate of the Cape Breton tax credit will remain unchanged at 60 per cent. The retention of these tax credits in the Atlantic region will provide a strong complement to the Atlantic Enterprise Program.
- The rate of credit for high-cost exploration will remain at 25 per cent as announced on October 30, 1985, and will be implemented in the legislation arising from the budget.
- The special investment tax credit will continue beyond the termination date, at a reduced rate of 40 per cent. The regions and sectors eligible for this credit will remain unchanged.
- The rates of credit for research and development will remain unchanged at 20 and 30 per cent with a 35-per-cent credit continuing to apply on the first $2 million of current expenditures on scientific research and experimental development by small businesses. The retention of the R&D credit, coupled with lower statutory tax rates and the continuing refundability for small business, will further encourage companies to expand their Canadian R&D activity.
- The existing rates of the investment tax credit will remain in place for property acquired before the end of 1986. Beginning January 1, 1987, the changes to the credit will be phased in over a three-year period. Table 2 illustrates the rates of investment tax credit that will apply to acquisitions of qualifying property in 1987 and subsequent years.

Table 2

Proposed Investment Tax Credit Rates, 1987-1989

	1987	1988	1989
	(per cent of eligible investment)		
Current 7-per-cent rate	5	3	0
Current 10-per-cent rate	7	3	0
50-per-cent rate for manufacturing in Special Investment Tax Credit areas	40	40	40
Research and development	unchanged from current rates of 20, 30 and 35		
Atlantic region	unchanged from current rate of 20		
Cape Breton	unchanged from current rate of 60		
High-cost exploration	unchanged from current rate of 25		

A portion of any credit that is unused in the year it is earned is refundable to businesses. Large corporations are entitled to a 20-per-cent refund of unused credits earned in the year, while small corporations and unincorporated businesses are entitled to a 40-per-cent refund.

The budget proposes to extend these refundability provisions past their current expiry date of the end of April 1986 to December 31, 1988. At that time, the investment tax credit will be fully phased out in those regions qualifying for the 7 and 10 per cent credit rates. The 35-per-cent credits earned for R&D expenditures of a current nature made by small research and development companies will continue to be refundable beyond 1988, as announced in the May 23, 1985 budget.

The share purchase tax credit which allows investment tax credits to be flowed to outside investors will expire at the end of 1986, as announced at the time of its introduction.

Inventory Allowance

The budget proposes that the inventory allowance be eliminated. This allowance, which is set at 3 per cent of opening inventory balance, was introduced in 1977 to respond to the impact of high rates of inflation on businesses carrying inventories. A prorated portion of the existing allowance will be available for fiscal periods that include February 25, 1986, based on the number of days in the period that fall on or before that date.

Impact of Changes

These changes will address many important objectives. They improve the distribution of the tax burden across firms operating in different sectors of the economy, and different types of investment will be treated more uniformly within sectors. The tax burden will be spread more broadly among firms, increasing the number of profitable firms who will pay tax. However, the lower statutory tax rate will mean that many taxable firms will be able to retain a greater proportion of their earnings.

The discussion paper released with the May 23, 1985 budget raised a number of other areas for examination, including reductions in the rates of capital cost allowance coupled with further reductions in the corporate tax rates. The government's plans for these remaining items of corporate tax restructuring will be dealt with in a discussion paper to be brought forward later in the year.

Limited Partnerships

As part of an ongoing effort to improve the fairness of the income tax system and to reduce the proliferation of tax-motivated investments, the budget proposes new "at-risk" rules for limited and certain other partnerships. These rules will limit investment tax credits and business losses available to limited and certain other partners. Because of concerns about tax shelters, tax rulings for limited partnerships and other similar financing arrangements have not been available since October 25, 1984.

Limited partnership financings are of particular concern in cases where a limited partner is entitled to tax benefits worth more than the actual amount of his investment. Tax benefits are frequently generated by investing money borrowed by the limited partnership, notwithstanding the fact that limited partners are not liable to repay such loans. In effect, investors can obtain positive investment returns financed by tax credits and deductions.

The budget proposes to limit the amount of investment tax credits and business losses that may be flowed out to limited partners. Limited partners will be allowed to claim investment tax credits and business losses only to the extent that their investment in the partnership is at risk.

The amount at risk for the first purchaser of a limited partnership interest for any year will generally be determined as the adjusted cost base of his partnership interest at the end of the year, plus any undistributed partnership income allocated to him for the year, less any amount owing by the limited partner to the partnership and less any guarantee or indemnity provided to the limited partner against the loss of his investment. Amounts owing to the limited partnership for a limited partnership interest are recognized in the limited partner's at-risk amount when the amounts are paid. Contracts which generate gross revenue to the partnership will reduce the partners' at-risk amount to the extent that they can reasonably be considered to protect the limited partners from loss.

Purchasers of limited partnership interests on the secondary market (other than purchasers of a limited partnership interest eligible for the transitional relief described below) will assume the at-risk amount of the selling limited partner.

The new at-risk rules will apply only to investment tax credits and business losses (other than farm losses) flowed out by a limited partnership. Other amounts allocated to a limited partner, such as resource expenses or capital losses, will reduce the adjusted cost base of his partnership interest in accordance with the current rules and will consequently affect the amount at risk and thus the amount of investment tax credits and business losses that he is entitled to claim.

In allocating investment tax credits to limited partners, a limited partnership may consider the contributions of the limited partners to have been applied or "designated" for the purpose of acquiring specific properties. The investment tax credit that may be allocated to the limited partners will be calculated according to the rate applicable to the designated expenditures. In making this allocation, the limited partnership can designate higher rate properties to maximize the amount of investment tax credit that can be flowed out to the limited partners. In this way, a limited partner's share of investment tax credits will not be reduced simply because the partnership invested in a mix of properties which were entitled to different rates of tax credit or had some expenditures which generated no tax credit at all. As an overriding rule, however, a limited partner may not be allocated investment tax credits for a year in excess of his remaining at-risk amount.

Example 1

A partnership has 10 limited partners each of whom invested $100 in the partnership. In the first year, the partnership invests $600 in an asset entitled to the 40-per-cent special investment tax credit and designates $60 of this investment to each of the limited partners. Each limited partner may then be allocated up to $24 of investment tax credit (40 per cent of the $60 designated to him as his investment in the $600 asset). Assuming that $24 of investment tax credit is allocated to each limited partner, the remaining amount at risk for each such partner would be $76. If, in addition, $65 of business losses are allocated to each limited partner, all of this loss would be deductible. Each limited partner's remaining at-risk amount would then be $11.

If, in the second year of the business, the partnership were to acquire additional assets costing $400, which assets are entitled to the 40-per-cent investment tax credit, it could designate $40 of the expenditure to each limited partner (i.e., the $100 original contribution less the $60 already designated in the first year). This would generate an investment tax credit of $16 at the 40-per-cent rate, but since each limited partner's remaining at-risk amount is only $11, the investment tax credit that may be allocated to any of them for that year would be limited to $11.

Example 2

A partnership has 10 limited partners each of whom invested $100 in the partnership for a total investment of $1,000 by the limited partners. In the first year, the partnership borrows an additional $600 and invests $1,600 in an asset entitled to the 40-per-cent special investment tax credit. In these circumstances, for investment tax credit purposes the partnership may designate only $100 of this investment to each of the limited partners. Accordingly, each limited partner may be allocated up to $40 of investment tax credit (40 per cent of the $100 designated to him as his investment in the $1,600 asset). Assuming that $40 of investment tax credit is allocated to each limited partner, the remaining at-risk amount for each such partner would be $60. If $45 of business losses were allocated to each limited partner, all of this loss would be deductible. Each limited partner's remaining at-risk amount would then be $15.

If, in the second year of the business, the partnership were to acquire more assets entitled to an investment tax credit, it would not be entitled to designate any of the expenditure to the limited partners for investment tax credit purposes because their original contributions were completely "spent" in the first year. Business losses allocated to the limited partners would, however, be claimable by them to the extent of their remaining at-risk amount of $15 each.

Investment tax credits earned by the limited partnership that are not allocated to limited partners may be allocated to the general partner or, where the general partner so elects, may be extinguished. The latter option may be preferred in order to avoid a cost base reduction for partnership assets where it is unlikely that the general partner can utilize the credits.

There is no restriction on the amount of business losses that may be allocated to a limited partner by the partnership. Such losses, however, may only be claimed by the limited partner to the extent of his remaining at-risk amount. Losses that may not be so claimed may be carried forward indefinitely by the limited partner to be applied against income from the same limited partnership. Where a limited partnership interest is sold, unclaimed losses of the limited partner may be added to the adjusted cost base of his partnership interest.

Grandfathering

To allow taxpayers to adjust to the new rules, grandfathering rules will be provided to exempt from the new measures the first and subsequent owners of an interest in a limited partnership which was carrying on business on February 25, 1986. For the purpose of these rules, a limited partnership that was in the course of raising capital on February 25, 1986 will be considered to have been carrying on business at that time.

This transitional relief will lapse if there is a substantial contribution of new capital to the limited partnership or substantial new borrowings by the partnership after February 25, 1986. An amount will not be considered to be substantial, however, where

(a) the funds were used to acquire property or to make an expenditure pursuant to the terms of a written agreement to acquire the property or make the expenditure entered into by the partnership before February 26, 1986,

(b) the funds were contributed or borrowed pursuant to the terms of the prospectus, preliminary prospectus or registration statement filed before February 26, 1986 and, where required by law, accepted for filing by a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province, or

(c) the use of the funds was incidental to, or necessary for, the operation of the business that was carried on by the partnership on February 25, 1986 but not including the use of any funds for a significant expansion of the business.

In the event that, at any time after February 25, 1986, there is a substantial contribution of new capital to the limited partnership or substantial partnership borrowings in a fiscal period, the new rules will become applicable for that and subsequent periods.

The rules described above will also apply to general partnerships in circumstances in which the arrangement results in the effective limitation of liability resembling that obtained from the use of a limited partnership. The rules would apply, for example, where investors establish separate corporations to form a general partnership in order to obtain limited liability, except in those circumstances where the partnership business is the same as that carried on by the investors and the arrangement is reasonably necessary to facilitate the carrying on of that business.

While the budget sets out rules which apply specifically to limited and certain other partnerships, it may be necessary to extend these rules to apply to joint ventures and similar arrangements where the investor has limited liability or otherwise enjoys an indemnity with respect to his investment. Advance tax rulings will continue not to be available for such arrangements where one of the main reasons for the arrangement can reasonably be considered to be to circumvent the at-risk rules.

Unpaid Remuneration

The budget proposes a change to the income tax rules governing the deductibility of unpaid remuneration including accrued bonuses. Most employers are entitled for tax purposes to deduct accrued remuneration in a year whether or not the amounts are actually paid or payable in the year to the employee. The current deductibility of unpaid remuneration permits extensive tax deferral, as the amounts are not reported in the taxable income of the employee until they are subsequently received.

The budget proposes to allow an employer to deduct accrued remuneration for a fiscal period only if it is paid within 180 days after the end of the period. For payments made after this time, the proposed amendments will allow the employer to claim a deduction for the fiscal period in which the amount was actually paid. These amendments will be effective for fiscal periods of employers commencing after February 25, 1986.

Married Exemption

Married individuals are entitled to a personal exemption for dependent spouses. The amount of the exemption is reduced when the dependent spouse earns income. Where an individual is married during the taxation year, the law currently provides that the exemption is reduced by the spouse's income only after the date of marriage. This is inappropriate since, for couples who marry late in the year, one spouse may qualify for the exemption even though the other spouse has substantial income for the year as a whole.

The budget proposes to base the exemption on the spouse's income for the whole year, rather than from the date of marriage. This change will be effective for the 1986 and subsequent taxation years and will make the married exemption consistent with exemptions for other dependants.

Salary Deferral Arrangements

As noted in the May 1985 budget, the government is concerned that employee benefit plans can offer unintended tax deferral advantages to certain groups of employees.

Generally an employee benefit plan is an arrangement under which contributions are made by an employer to a custodian and under which payments are to be made for the benefit of employees or former employees of that employer. The tax treatment of such plans is designed to ensure the proper matching of the employer's deduction for his contribution with the employee's inclusion of his benefit in taxable income. Accordingly, employer contributions to a plan are neither taxable in the employee's hands nor deductible to the employer until they are withdrawn from the plan by the employee. Tax on the plan's investment earnings must be paid each year either by the plan, or by the employer or employee to the extent that the earnings are distributed.

Where the employer is non-taxable, there is no cost to it of entering into an arrangement to permit the employee to defer tax on employment income. Also, if investment earnings of an employee benefit plan are paid out to such an employer as beneficiary and then re-contributed to the plan, the tax on these earnings is deferred until the funds are withdrawn by the employee. These tax advantages are limited only by the employee's ability to defer the receipt of his current salary.

The government is concerned about the implications of such plans for government revenues and the unfair distribution of tax benefits to individuals in different employment situations. The budget proposes a measure designed to prevent this deferral of salary for tax purposes without interfering with other arrangements where employee benefit plans are not primarily motivated by tax deferral considerations.

The budget proposes that remuneration deferred by an employee through a "salary deferral arrangement" be taxed in the employee's hands on an accrual rather than a receipts basis. The deferred salary will be deductible immediately to the employer. A salary deferral arrangement will be defined as an arrangement between an employer and employee that has as a main purpose the deferral of remuneration otherwise payable in the year to the employee for services rendered in the year or in preceding years. The definition of salary deferral arrangement will explicitly exclude pension and other registered plans, other plans now excluded from the definition of employee benefit plans and other prescribed arrangements including those governing teachers' sabbaticals and compensation for services as a professional athlete.

For the purpose of these rules, remuneration payable in a taxation year will include interest or other additional amounts accrued in the year that an employer agrees to pay to the employee by virtue of the arrangement.

The new rules will be effective with respect to remuneration payable after February 25, 1986 but will not apply to remuneration payable pursuant to an agreement in writing entered into on or before that date until such time as the employee can require payment of the deferred amount. Any such deferred amounts that are required to be contributed by an employer to an existing employee benefit plan will continue to be subject to the existing rules in respect of such amounts and any earnings thereon.

Tax Treatment of Dividends

The budget proposes changes in the tax treatment of dividends that will permit a significant simplification of the tax system for small business, while retaining incentives for investment by individuals in Canadian companies. The budget proposes that, effective January 1, 1987, the dividend gross-up and tax credit will be reduced from one-half to one-third of the amount of dividends received by individuals from taxable Canadian corporations. In conjunction, the 12 1/2-per-cent tax on dividend distributions from small business corporations will be repealed for dividends paid after the end of 1986.

Elimination of this tax will achieve a substantial simplification of the small business tax system. It will allow small businesses that operate through several corporations to transfer funds more easily from one to another part of their business.

The 12 1/2-per-cent tax on dividend distributions was introduced in 1981. It ensures that business income earned and distributed from a company now bears approximately the same total tax as if the income had been earned directly by the individual. This result is achieved because the corporate tax on earnings distributed from a small business (which now includes the basic corporate tax plus the distributions tax) is matched by the dividend tax credit which individual shareholders claim. As the dividend tax credit is lowered, it is appropriate to remove the distribution tax, so that equality is maintained between income earned through a small private corporation and by an unincorporated enterprise.

As a result of the reduction in the rate of the dividend tax credit, consequential amendments will be made to the tax under Part IV of the *Income Tax Act* and to the provisions relating to the special refundable tax on investment income for certain closely-held corporations. These changes will preserve the integration of the corporate and personal tax on investment income flowed through such corporations.

Starting in 1987, the federal rate of dividend tax credit will be set at 16 2/3 per cent of grossed-up dividends. As this credit also automatically affects provincial tax in provinces that are party to the tax collection agreements, the combined federal-provincial credit will be approximately one-third of cash dividends, depending on the applicable provincial tax rate.

The dividend tax credit will continue to provide an incentive for investment by Canadians in Canadian dividend-paying companies.

The budget proposes that the taxation of dividends from taxable Canadian corporations under the minimum tax be based on the cash dividend received by individuals and not on the grossed-up amount which is now 50 per cent higher than individuals actually receive. This change is proposed in recognition of the fact that the reduced dividend tax credit will itself reduce the number of high-income individuals who are non-taxable. It will ensure that the rate of minimum tax on dividends from Canadian corporations will be the same as that on interest or employment income or dividends from other sources. This change will be embodied in the legislation implementing the minimum tax, which will be released in draft form as soon as possible.

The net effect of these changes in the dividend tax credit and minimum tax is to reduce personal tax revenues by $150 million for the 1986 taxation year but to increase personal tax revenues by $250 million or more annually in subsequent years.

The legislation implementing the minimum tax will also ensure that payments out of a corporation's capital dividend account, including those representing life insurance proceeds, will not be part of the tax base for the minimum tax.

Registered Retirement Savings Plan Withdrawals

Individuals currently have several options for the withdrawal of funds accumulated in registered retirement savings plans (RRSPs). They may withdraw all of the funds in one lump sum and include them in their taxable income for the year, purchase a life annuity or a fixed-term annuity to age 90, or transfer the funds to a registered retirement income fund (RRIF).

Persons who have retired have expressed the need for additional flexibility to vary withdrawals from a RRIF according to their needs. The current complexity of the rules and the limit of one RRIF per individual have restricted the acceptance of this instrument in the marketplace.

To address these concerns, the budget proposes to make four changes to the RRSP payout options. First, the RRIF provisions will be modified to remove the existing maximum limit on payouts. The new rules will require only that the individual withdraw from the RRIF each year and include in taxable income a minimum amount equal to the amount in the plan at the beginning of the year divided by the number of years to age 90 of the individual or his or her spouse. Individuals will, therefore, have complete flexibility to withdraw any amount in excess of the minimum amount in the year.

Second, the limit of one RRIF per individual will be eliminated. This change will permit individuals to diversify their investments.

Third, payments out of a RRIF will be allowed to start at any time after the RRIF has been purchased. Currently, individuals must wait until the next calendar year before they can receive any payment.

Fourth, in line with the changes in the limits on withdrawals under a RRIF, provision will be made to remove the prohibition against any commutation of life or term annuities payable under an RRSP.

These changes will be effective for the 1986 and subsequent taxation years. They will minimize the government's intervention in retirement income planning. Retired people will be able to manage their own investment in a RRIF with substantially increased flexibility on payouts of retirement funds.

Investment Income Reporting

Under existing rules issuers of certain investments are required to issue annual information returns both to Revenue Canada and to taxpayers reporting the investment income paid to them. These rules apply to dividends, royalty payments, interest on registered bonds and interest from corporations but do not apply to the discount in respect of treasury bills. To improve the reporting of investment income and protect tax revenues, the budget proposes, subject to consultations, to extend the reporting requirements to treasury bills effective January 1, 1987. In addition, effective January 1, 1987, it is proposed to require individuals holding treasury bills to furnish their social insurance numbers to dealers or other persons from whom the bills were acquired so that they may be reported on information returns.

Interest on Taxes, Penalties and Refunds

To improve the administration of the income tax system, the budget proposes to revise the existing rules that provide for the compounding of interest on unpaid taxes, penalties and refunds. The budget proposes that the interest be compounded daily rather than quarterly. This will facilitate the computation of interest. The implementation of these rules will continue to be deferred to a date to be fixed by proclamation.

IV. Paying for Government Programs

Surtax on Individuals and Corporations

Individuals

As part of the budget policy of deficit reduction, a surtax of 3 per cent will be imposed on the basic federal tax of individuals beginning on July 1, 1986. In 1986, this surtax will be in addition to the surtax on high-income individuals announced in the May 1985 budget. Thus, for 1986 the combined rate of surtax will be 1 1/2 per cent on the first $6,000 of basic federal tax, 6 1/2 per cent on basic federal tax between $6,000 and $15,000 and 11 1/2 per cent on basic federal tax in excess of $15,000. In 1987 and subsequent years, the surtax will be 3 per cent of basic federal tax for all individuals. The surtax does not affect provincial revenues. It will be subject to deductions at source starting July 1, 1986 and will affect instalment obligations.

The following table indicates the impact of this measure on typical taxfilers.

Federal Income Tax Changes as a Result of the Increased Surtax

Income level	Single taxfiler		Married couple, one earner two dependants under 18	
	1986	1987	1986	1987
	(dollars)			
5,000	0	0	0	0
10,000	11	20	0	0
15,000	24	47	10	20
20,000	38	74	24	47
30,000	71	138	53	104
40,000	108	213	89	177
50,000	150	299	128	256
75,000	267	531	241	482
100,000	394	786	368	737

Note: Taxfilers are assumed to be under 65, to receive earned income and to claim standard exemptions and deductions.

Corporations

The 5-per-cent surtax on large corporations introduced in the May 1985 budget is effective until the end of 1986. To contribute to the reduction in the deficit, a surtax of 3 per cent will be imposed on the federal income tax payable by all corporations, effective January 1, 1987. The surtax will apply to about 280,000 corporations.

The new surtax will be calculated by reference to federal corporate taxes otherwise payable after the small business deduction and the special manufacturing and processing credit but before the deduction of certain tax credits. The surtax will apply to all corporations other than non-resident-owned investment corporations. It will affect the instalment obligations of corporations, but will not affect provincial revenues.

Federal Sales Tax Rate Increase

The rates of the federal manufacturer's sales tax, currently 7 per cent for construction materials and cable and pay television services, 14 per cent for alcoholic beverages and tobacco, and 11 per cent for other taxable goods, will increase to 8 per cent, 15 per cent and 12 per cent respectively, effective from April 1, 1986.

The budget also proposes the introduction of a new refundable sales tax credit against personal income tax. This credit of $50 per adult and $25 per child will provide significant benefits to lower-income families.

Excise Taxes and Duties

The budget proposes to increase the specific excise taxes and duties on alcohol by 4 per cent and on cigarettes and other tobacco products by 6 per cent, effective February 27, 1986. This will result in a tax increase of about 12 cents on a 710 ml bottle of liquor, 1 cent on a 750 ml bottle of wine, 6 cents for a 24-bottle case of beer, and 4.5 cents per pack of 25 cigarettes.

V. Other Tax and Tariff Changes

Tax Changes

Small Business Corporations

The term "small business corporation" is relevant for various income tax provisions including those dealing with small business development bonds, business investment losses, *inter vivos* transfers of shares of small business corporations and the income attribution rules. The budget proposes to broaden the category of small businesses that would qualify as small business corporations. Such corporations are an important source of growth in the Canadian economy and investment in such corporations should be encouraged.

A small business corporation is currently defined as a Canadian-controlled private corporation that uses all or substantially all of its assets in an active business carried on in Canada. Applicable after 1985, the budget proposes to define a small business corporation as a Canadian-controlled private corporation that uses all or substantially all of its assets in an active business carried on *primarily* in Canada. The broader definition of a small business corporation will allow investors to make use of the business loss provisions for investments in Canadian-controlled private corporations that have expanded outside Canada but are primarily carrying on an active business in Canada.

A further modification to the definition, applicable only for the provisions relating to allowable business investment losses, provides that the corporation will qualify if it was a small business corporation at any time in the 12 months preceding the time of disposition of the shares or debt.

By virtue of the new definition, investors in small business corporations that cease to carry on an active business because the corporation has become bankrupt or is being wound up prior to the investor disposing of his investment, will be eligible to claim an allowable business investment loss.

An allowable business investment loss is a capital loss arising on an arm's-length disposition of shares or debt of a small business corporation. One-half of a business investment loss may be deducted from other income. This deductibility of allowable business investment losses reduces the risk associated with investment in small business.

Non-Resident Withholding Tax

The budget proposes three changes to the non-resident withholding tax system applicable to interest. Two of the changes are designed to improve access to foreign capital markets and to reduce the cost to Canadian companies of raising certain types of capital internationally. A third change will ensure that withholding tax exemptions for interest are confined to debt obligations that do not carry profit participation or similar features.

An exemption from withholding tax currently exists for interest paid to non-residents in respect of foreign currency deposits at banks. The May 1985 budget indicated the government's intention to examine whether the exemption could be broadened to include other financial institutions. It is now proposed that this exemption be extended to other deposit-taking institutions that are members of the Canadian Payments Association. Credit unions that are members or shareholders of centrals that belong to the Canadian Payments Association will also be included. This extension should eliminate any competitive disadvantage for such institutions in receiving deposits from non-residents.

The exemption will be available for interest paid by an eligible financial institution after the implementing legislation receives Royal Assent.

Each qualifying institution will be asked to enter into an agreement not to engage in back-to-back loan arrangements that would permit other taxpayers to avoid withholding tax. Such institutions will be prescribed as eligible for the exemption. Qualifying institutions will be required to file an annual information form providing summary data on foreign currency deposits and other related aggregate information to permit a periodic review of the effect of the measure.

The second budget change relates to the exemption from non-resident withholding tax which is now allowed for interest payments to arm's-length parties on long-term corporate debt issued before 1989. For a debt issue to be eligible, there cannot be an obligation to repay more than 25 per cent of the principal amount within five years from the date of issue. This restriction prevents the use of long-term debt that may be converted into equity within the five-year period. Effective for interest payments after February 25, 1986, the budget proposes to extend the current exemption to arm's-length long-term corporate debt that is convertible into shares, provided the shares are not retractable or redeemable within the five-year period after the debt was issued. This will provide additional flexibility to corporations that raise capital in international capital markets.

In addition, the budget proposes to deny the foregoing exemption for withholding tax on payments made to a non-resident lender on a participating debt instrument issued or extended on or after February 26, 1986. A participating debt instrument is generally one under which all or any portion of the interest is or may be related to the issuer's revenues, cash flow or profits. This type of instrument will bear withholding tax regardless of its term to maturity or prepayment privileges.

Sales Tax Exemption for Tourist Literature

Government-sponsored tourist literature was exempted from the federal sales tax in the May 23, 1985 budget. In that budget, the government indicated that consideration would be given to extending similar relief to appropriate non-government agencies and associations. As a result, tourist literature acquired by boards of trade, chambers of commerce, municipal and automobile associations, and similar organizations will be exempted from federal sales tax after February 26, 1986.

As in the case of government-sponsored material, the exemption will apply to tourist literature that is for distribution to the general public free of charge and is of a general nature as opposed to advertising for specific commercial entities. Eligible purchases within Canada will qualify for refunds of the federal sales tax. Imported tourist literature will be exempted from application of the tax.

Corporate Tax Exemption for PGRT

Under the *Petroleum and Gas Revenue Tax Act*, individuals resident in Canada are eligible for an annual deduction of $10,000 against their production revenue (including production and resource royalties) starting in 1986. To further simplify compliance with the tax for those who receive production revenue through a corporation, the budget proposes to extend this $10,000 deduction to corporations for the 1986 and subsequent taxation years. The deduction will be available against both the production and royalty revenues of a corporation that are taxable under Division I of the Act. No deduction will be allowed to a corporation in a taxation year where that corporation or an associated corporation is claiming the $500,000 small producer credit for the year.

Air Transportation Tax

The air transportation tax on domestic travel is currently imposed at a rate of 9 per cent of the ticket price. In response to representations by long distance travellers, including residents of the far North, the budget is proposing a ceiling of $50 on the tax on domestic flights. To offset the revenue loss from this ceiling, the rate of tax will be increased to 10 per cent.

These changes will be applicable to tickets sold in Canada on or after May 1, 1986 and on tickets sold outside Canada on or after August 1, 1986.

Proceeds of the air transportation tax are made available to the Minister of Transport for use in the provision of airport facilities and inflight services such as navigation aids for the air industry.

Flow-Through Shares – Third Party Liability

The budget proposes an amendment which would make the existing flow-through share provisions for the mining sector and the oil and gas sector simpler and more effective. This amendment will be effective for flow-through share arrangements entered into after February 1986.

Under the existing rules, the investor rather than the corporation incurs the resource expenditures in consideration for the flow-through shares. As a result, the investor is potentially liable for third party claims in respect of the exploration and development program. While procedures exist whereby investors can be protected, these can be costly and complex, particularly for smaller issuers.

It is proposed that a principal business corporation that incurs resource expenditures pursuant to an agreement with investors be permitted to renounce these expenditures to the investors. The renounced expenditures will be treated as having been incurred by the investor and not by the corporation. The corporation may renounce only those expenditures up to the amount received from the investors for the flow-through shares. The expenditures must be incurred within 12 months after the end of the month in which the corporation enters into the agreement to issue the shares.

Issuers will be required to file a return providing information on the total amounts of the flow-through shares issued, to permit monitoring of the incentive.

Sales and Excise Taxes on Motive Fuels Refundable to Diplomats

Heads of diplomatic missions and certain other senior representatives of foreign governments in Canada are entitled to relief from the sales and excise taxes applicable to automobiles, tobacco products, and alcoholic beverages. The budget proposes to provide authority to extend the refund of sales and excise taxes on motor gasoline and diesel fuel to eligible diplomats from countries that provide similar relief to Canadian diplomats and government representatives. The countries eligible for the motor gasoline and diesel fuel tax refunds will be prescribed by regulation.

Wind Energy Equipment

In view of the advance in the area of wind energy technology and to encourage the development of this new industry, the budget proposes to include wind energy equipment in the category of energy conservation equipment now qualifying for faster capital cost allowance write-off. Effective February 26, 1986, equipment generating electrical energy from wind, for use in a business, will now be eligible for a three-year write-off. The specific items that are to be added will be prescribed by regulation and generally include fixed location wind-driven turbines and ancillary generating equipment. As is the case for other energy conservation equipment, the eligibility of wind energy equipment for the special write-off is to be certified by the Minister of Energy, Mines and Resources.

Customs Tariff Changes

CARIBCAN Duty-Free Trade

Because Canadian foreign policy recognizes a "special relationship" with the Commonwealth Caribbean countries, Canada has responded positively to a request from the Heads of Government of the Commonwealth Caribbean countries for the implementation of a package of measures relating to trade, development assistance, and the avoidance of double taxation, to be known as CARIBCAN. These initiatives are designed to assist Commonwealth Caribbean countries in meeting their economic development goals.

Amendments to the *Customs Tariff* provide the cornerstone of CARIBCAN. Preferential duty-free treatment will be extended to the vast majority of imports from these countries. In addition, duty-free access will cover a wide range of goods which may not currently be manufactured in, or exported from, the Commonwealth Caribbean. Imports from Anguilla, Antigua and Barbuda, Bahamas, Bermuda, Barbados, Belize, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Christopher-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the Turks and Caicos Islands will be eligible for preferential duty-free treatment. Based on the results of consultations with Canadian industry, textiles, clothing, footwear, luggage, handbags, leather garments, lubricating oils and methanol have not been included in the duty-free provisions of CARIBCAN. These goods will continue to be subject to established rates of duty. Commonwealth Caribbean countries will continue to be eligible for preferential treatment for those products under the General Preferential Tariff or the British Preferential Tariff, where preferential rates exist.

Amendments to the *Customs Tariff* also make provision for the establishment of appropriate rules of origin and withdrawal of duty-free rates for CARIBCAN imports which cause injury to domestic producers. Regulations will be proposed to the Governor in Council stipulating that, to qualify for duty-free entry under CARIBCAN, goods will have to be certified as being *bona fide* products of the Commonwealth Caribbean; a minimum of 60 per cent of the ex-factory price of imported goods (which includes factory overhead and reasonable profits) will have to originate in any of the Commonwealth Caribbean countries or in Canada.

In keeping with the Prime Minister's undertaking to his Commonwealth Caribbean counterparts in October 1985, the preferential trade aspects of CARIBCAN will be effective June 15, 1986. After implementation, the Tariff Board will receive and review requests from Canadian manufacturers for the withdrawal of duty-free rates should injury, or threat of injury, occur. All affected parties, including Commonwealth Caribbean manufacturers and/or their governments, will be able to make representations to the Tariff Board when public hearings are held on such requests.

Canada has notified the GATT of its intention to provide preferential duty-free entry for Commonwealth Caribbean imports and is seeking a waiver from the obligation to provide non-discriminatory treatment for the imports of members of the GATT.

The Adoption of the Harmonized Commodity Description and Coding System

The Government of Canada has decided to replace its current Tariff and adopt in its place the Harmonized Commodity Description and Coding System on January 1, 1988, provided that the United States, Japan and the European Communities take similar action at the same time. This decision is the culmination of many years of international work by major trading nations to develop a standard tariff nomenclature and statistical system which would ensure that goods traded in the international marketplace are identified, described and statistically recorded in the same way. In the early 1980s, consultations with the Canadian business community were held on the advisability of Canada's participation in the international development of the Harmonized System. The Tariff Board is now seeking the views of the Canadian private sector on the proposed conversion of the current tariff provisions to the Harmonized System.

It is foreseen that domestic consultations and the required international negotiations under the GATT will be completed by the end of 1986. Parliamentary approval will be sought for amendments to the *Customs Tariff* which would bring the provisions of that Act into line with the International Convention on the Harmonized Commodity Description and Coding System in a timely and appropriate manner.

By announcing Canada's decision at this time to implement the Harmonized System on January 1, 1988, the government is acting on an undertaking given to Canadian businesses to allow them adequate time to familiarize themselves with the new Tariff and to convert their own existing internal procedures to those required by the Harmonized System in a rational and cost-effective manner.

Tariff Adjustments in Response to Domestic Concerns

To make statutory provision for a recently concluded agreement between Canada, the United States and Japan to eliminate tariffs on semi-conductor devices and computer parts, the *Customs Tariff* is being amended effective February 27 to provide duty-free entry for these goods. Free entry has been provided by Order in Council since January 20, 1986, the date when the United States and Japan completed action to eliminate their tariffs on computer parts. Both these countries removed tariffs on semi-conductors on March 1, 1985.

Effective February 27, the *Customs Tariff* is also being amended to implement several of the recommendations contained in Phase II of the Report of the Tariff Board entitled "Tariff Items Covering Goods Made/Not Made in Canada".

Several other amendments take action on representations received from the private sector for tariff changes which respond to evolving needs. For example, Canadian tourists returning from the United States and entitled to the annual $300 duty- and tax-free "tourist exemption" will now be able to ship goods and claim them as part of their exemption. Previously, only Canadian tourists returning from countries beyond the continental limits of North America were entitled to claim shipped goods. Large size off-highway tires will be accorded duty-free entry, as will backhoes and power shovels used in mining operations, neither of which are available from Canadian production. Articles specially designed for guide-dogs for the blind will no longer be subject to duty.

To ensure that comparable treatment is extended to Canadians of all religious faiths, religious ancestral shrines will be allowed duty-free entry, as is now the case with other identified religious articles which are not available from Canadian production.

VI. Federal Revenue Impact of Budget Tax Changes

The following table describes in detail the impact of tax measures on revenues for the 1986 through 1990 taxation years.

Federal Revenue Impact of Budget Tax Measures

		Calendar year[1]				
	Effective date	1986	1987	1988	1989	1990
		(millions of dollars)				
1. **Measures affecting individuals**						
Reductions in tax expenditures						
Changes to the tax treatment of dividends	1986 and 1987 tax years	– 150	250	300	330	365
Reduction of the investment tax credit for unincorporated businesses	phase out beginning Jan. 1, 1987	0	35	70	145	160
Elimination of the inventory allowance for unincorporated businesses	Feb. 26, 1986	25	30	32	35	38
Changes to marital exemption for year of marriage	1986 tax year	20	20	20	20	20
Changes in the tax treatment of unpaid remuneration	fiscal periods starting after Feb. 25, 1986	one-time revenue increase which depends on response				
Changes to employee benefit plan rules	Feb. 26, 1986	prevents revenue loss				
Changes to limited partnership rules	Feb. 26, 1986	prevents large revenue loss				
Changes to allowable business investment losses	Jan. 1, 1986	small revenue reduction				
Other changes affecting individuals						
3 per cent surtax	July 1, 1986	550	1,200	1,260	1,325	1,400

[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.

	Effective date	Calendar year[1] 1986	1987	1988	1989	1990
		(millions of dollars)				
Prepayment of child tax credit[2]	1986 tax year	does not affect full year cost				
Refundable sales tax credit	1986 tax year	−330	−335	−340	−350	−360
Exemptions for residents of the North and isolated posts	1987 tax year	0	−120	−125	−130	−135
New options for maturing RRSPs	1986 tax year	no revenue impact				
Increase in the disability deduction	1986 tax year	−10	−10	−10	−10	−10
2. Measures affecting corporations						
Changes to the corporate tax system		240	270	80	175	50
Corporate income tax rate reductions	phase in beginning July 1, 1987	0	−255	−800	−1,335	−1,630
Elimination of inventory allowance	Feb. 26, 1986	375	460	490	530	570
Reduction of the investment tax credit	phase out beginning Jan. 1, 1987	0	240	535	980	1,110
Extension of refundable investment tax credit	May 1, 1986 to Dec. 31, 1988	−135	−175	−145	0	0
3 per cent surtax	Jan. 1, 1987	0	390	420	455	475
Removal of tax on small business dividend distributions	Jan. 1, 1987	0	−250	−260	−275	−290
Enhancements to Cape Breton investment tax credit	May 23, 1985 and Feb. 26, 1986	depends on approvals				
Changes in non-resident withholding taxes	Feb. 26, 1986 and Royal Assent	small revenue reduction				
Changes to flow-through share rules to eliminate investor liability	March 1, 1986	revenue reduction depends on response				
$10,000 PGRT exemption	Jan. 1, 1986	small revenue reduction				
Wind energy equipment write-off	Feb. 1, 1986	small revenue reduction				

[2] There are no taxation year costs to this measure, though it does advance cash flow to families and shift $180 million of the annual cost of the credit from the 1987-88 to the 1986-87 fiscal year.

	Effective date	Calendar year[1] 1986	1987	1988	1989	1990
		(millions of dollars)				
3. Commodity tax measures						
1 per cent increase in federal sales tax rates	April 1, 1986	700	1,050	1,125	1,200	1,300
Increase in taxes on alcohol and tobacco	Feb. 27, 1986	125	150	150	150	150
Sales tax exemption for tourist literature	Feb. 27, 1986	−10	−10	−10	−10	−10
Changes in air transportation tax	May 1, 1986[3]	5	10	10	15	15
One-year extension of fuel tax rebate for primary producers	Jan. 1, 1987	0	−120	0	0	0

[3] For tickets sold outside Canada, the effective date is August 1, 1986.

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 and to provide among other things:

PERSONAL

Salary Deferral Arrangements

(1) That, where an employee and his employer have entered into a salary deferral arrangement, any remuneration payable to the employee after February 25, 1986 and in a taxation year the receipt of which was deferred by reason of the arrangement, shall be included in computing his income for the year and not in any subsequent year in which it was received and for this purpose

(a) a salary deferral arrangement means a plan or arrangement, whether funded or not, a main purpose of which is to defer the receipt of remuneration that would otherwise have been paid to an employee in a calendar year for services rendered in the year or a preceding year but does not include a registered pension plan, a profit sharing plan, other statutory plans and other prescribed arrangements including those governing sabbaticals for teachers and compensation for services as a professional athlete,

(b) remuneration payable in a taxation year will include interest or other additional amounts accrued in the year on account of any remuneration payable after February 25, 1986 that an employer agrees to pay under a salary deferral arrangement, and

(c) remuneration payable after February 25, 1986 does not include any remuneration that an employee was required to defer pursuant to an agreement in writing entered into on or before that date until such time as he can require payment of the amount deferred.

(2) That for the 1986 and subsequent taxation years,

(a) remuneration included in the income of an employee in a year under the provisions relating to salary deferral arrangements be treated as having been paid by the employer at the time the amount would have been paid but for the deferral arrangement rather than when actually paid for the purpose of computing the income of the employer, and

(b) the existing rules applicable to employee benefit plans not apply to any amount taxed under the provisions relating to salary deferral arrangements.

Unpaid Remuneration

(3) That for fiscal periods commencing after February 25, 1986, the amount of any deductible expense to be paid by an employer to an individual as salary, wages or other remuneration in respect of an office or employment that is unpaid 180 days after the end of the employer's fiscal period in which the expense was incurred be deductible in computing the employer's income for the period in which the amount was paid and not for the period in which it was incurred.

Taxable Dividends

(4) That

(a) the amount of the gross-up in respect of taxable dividends received after 1986 by individuals from taxable Canadian corporations be reduced from 1/2 to 1/3 of dividends received,

(b) the amount of the federal credit in respect of a taxable dividend received after 1986 by individuals be calculated as 16 2/3% of the grossed-up dividend,

(c) the refundable portion of Part I tax included in the refundable dividend tax on hand of a Canadian-controlled private corporation and the special tax deduction provided to investment corporations be increased to 25% of investment income earned after 1986,

(d) the dividend refund to a private corporation be increased to 1/3 of taxable dividends paid after December 31, 1986,

(e) the refundable dividend tax on hand of a private corporation on December 31, 1986 be increased by 50% of the amount otherwise determined, and

(f) the rate of tax under Part IV of the Act be increased to 33 1/3% for taxable dividends received after December 31, 1986.

Married Exemption

(5) That for the 1986 and subsequent taxation years, an individual be required to take into account, in computing the married exemption for the year of marriage, the income of his or her spouse for the whole year.

Disability Deduction

(6) That the special deduction in respect of disabled persons be increased by $250 to $2,860 for 1986 and that that amount be increased by the indexing factor for subsequent years.

Northern Employee Travel

(7) That for the 1987 and subsequent taxation years, an employee who resides in a prescribed area for a continuous period of not less than six months commencing or ending in the year be entitled to a deduction in computing his taxable income not exceeding a prescribed amount for certain travel benefits or reimbursements provided by his employer.

Northern Housing Benefits

(8) That for the 1987 and subsequent taxation years, in computing the taxable income of an individual who resides in a prescribed area for a continuous period of not less than six months commencing or ending in the year, there may be deducted an amount (not exceeding 20% of his income for the year) equal to $225 for each full month in the year during which he resides in the area except that, where the individual maintains and resides in

a self-contained domestic dwelling in the area, the reference to $225 shall be read as a reference to $450 except in relation to any month for which any person residing in the dwelling other than the individual claims a deduction under this provision.

Individual Surtax

(9) That

(a) an additional surtax be imposed on individuals for the 1986 taxation year, at a rate of 1 1/2% of the individual's tax otherwise payable for the year, and

(b) for the 1987 and subsequent taxation years, a surtax be imposed on individuals at a rate of 3% of the individual's tax otherwise payable for the year,

and, for this purpose, "tax otherwise payable" of an individual is the tax payable by him under Part I of the Act computed without reference to subsection 120(1), section 122.3 and sections 126 to 127.4 of the Act.

Child Tax Credit

(10) That for the 1986 and subsequent taxation years, advance payments be made to qualified individuals on account of their child tax credit for the year and, for this purpose, "qualified individual" means a person who, in respect of the preceding taxation year, was entitled to the credit and whose family income for that year for the purposes of the credit did not exceed $15,000.

Refundable Federal Sales Tax Credit

(11) That for the 1986 and subsequent taxation years, a refundable federal sales tax credit be provided to an individual who files a prescribed form and who at the end of the year was married, had a child or was 18 years of age or over of $50 for himself, $50 for his spouse with whom he resided at the end of the year and $25 for any other person under 18 years of age at the end of the year who was a child of the individual or his spouse or was a person in respect of whom the individual or his spouse has claimed a deduction under section 109 of the Act for the year, but no credit be provided to or in respect of any person who during the year was not resident in Canada, was a person referred to in paragraph 149(1)(a) or (b) of the Act, was confined to a prison or similar institution throughout a period exceeding 6 months or was a person in respect of whom any person other than the individual has claimed the credit, and that

(a) the amount of the credit be reduced by 5% of the amount by which the individual's income for the year or, where the individual is married and not separated from his spouse at the end of the year, the aggregate of his income and the income of his spouse for the year exceeds $15,000, and

(b) an individual and his spouse from whom he was not separated at the end of the year be jointly and severally liable to repay any overpayment of the credit and to a penalty for any false statement or omission made in connection with any claim for the credit.

Minimum Tax

(12) That for taxation years commencing after 1985, capital dividends and the gross-up in respect of taxable dividends received from taxable Canadian corporations be excluded in computing the minimum tax base.

Registered Retirement Income Funds

(13) That for the 1986 and subsequent taxation years, the provisions of the Act relating to registered retirement income funds be amended so that

(a) an annuitant be permitted to withdraw any amount in the year from a fund in excess of the amount required to be withdrawn in the year under the existing provisions, and

(b) an individual not be restricted to having only one registered retirement income fund.

Registered Retirement Saving Plans

(14) That the provisions of the Act relating to registered retirement savings plans be amended to permit any retirement annuity under a plan to be commuted in whole or in part at any time after 1985.

BUSINESS

Inventory Allowance

(15) That the 3% inventory allowance be repealed for fiscal periods ending after February 25, 1986 except that the allowance be deductible for fiscal periods that include February 25, 1986 based on the proportion that the number of days in the period that fall on or before that date is of 365.

Scientific Research and Experimental Development

(16) That the provisions of the Act relating to current expenditures of a taxpayer in respect of scientific research and experimental development be amended to include payments made after February 25, 1986 to an approved organization to promote, assist or undertake such research and development related to the class of business of the taxpayer provided that the taxpayer has obtained the right to exploit the results thereof.

Flow-Through Shares

(17) That where shares other than prescribed shares are issued by a principal business corporation to an investor pursuant to an agreement entered into after February 1986 under which the consideration for the shares is to be used by the corporation to finance Canadian resource expenses and the expenses are incurred within 12 months after the end of the month in which the agreement was entered into, the following rules apply where the corporation so elects:

(a) the corporation may by filing a prescribed form renounce in favour of the investor such expenses incurred by it, before the renunciation, in an amount not exceeding the consideration received by it for the shares,

(b) the expenses so renounced shall be deemed for income tax purposes to have been incurred by the investor at the time of the renunciation and shall be deducted in calculating the cumulative resource expense pools of the corporation at that time, and

(c) the cost to the investor of the shares shall be deemed to be nil,

and that the existing provisions of the Act relating to flow-through shares continue to be effective for shares issued pursuant to an agreement in writing entered into before 1987.

Mining Flow-Through Shares

(18) That, where consideration has been received by a mining corporation in the 1986 or a subsequent calendar year pursuant to a flow-through share agreement between the corporation and an investor with which it deals at

arm's length and the corporation renounces Canadian exploration expenses referred to in subparagraph 66.1(6)(a)(iii) of the Act in respect of a mineral resource (other than a bituminous sands deposit, oil sands deposit or oil shale deposit) incurred by the corporation within 60 days after the end of the year, such expenses be deemed to have been incurred by the investor immediately before the end of that year and not by the corporation.

Limited Partnerships

(19) That for the 1986 and subsequent taxation years, the following rules apply in respect of a limited partnership interest, other than an exempt interest, of a taxpayer:

(a) the taxpayer's share of the investment tax credit earned by the partnership for any year of the partnership be limited to the lesser of

(i) the amount of the credit earned by the partnership on the expenditure by it of funds contributed by the taxpayer and included in his at-risk amount in respect of the partnership interest at the end of a year, and

(ii) the taxpayer's at-risk amount in respect of the interest, at the end of the year;

(b) the taxpayer's share of partnership business losses other than farm losses for the year be deductible by him only to the extent of the amount by which his at-risk amount in respect of the partnership interest at the end of the year exceeds his share of the investment tax credit earned by the partnership for the year; and

(c) the taxpayer's share of any partnership loss so denied may be deducted by him in subsequent taxation years to the extent of his income from the partnership in those years and any remaining loss may be added to the adjusted cost base of his partnership interest immediately before its disposition

and, for this purpose

(d) a limited partnership interest means an interest in a partnership where

(i) by operation of the law under which the partnership was formed, the liability of the partner owning the interest is limited,

(ii) any person or partnership has undertaken to indemnify the partner for any liability with respect to his interest in the partnership otherwise than by way of a contract of insurance, or

(iii) one of the main reasons for the existence of the partner who owns the interest may reasonably be considered to be to limit the liability of any other person with respect to that interest but does not include an interest in a partnership established to permit persons who have invested in the partner to carry on their business (other than an investment business) in the most effective manner;

(e) subject to subparagraph (g), the "at-risk amount" of a taxpayer in respect of a partnership interest at the end of a year means the taxpayer's share of the partnership's income for the year plus the adjusted cost base of his partnership interest at that time subject to the following adjustments:

(i) an amount payable by a taxpayer as a capital contribution to the partnership shall not be included in his at-risk amount until such time as it is paid,

(ii) no amount shall be included in a taxpayer's at-risk amount to the extent that it may reasonably be considered to be, directly or indirectly, protected from loss (except to the extent that the protection from loss is by way of a revenue guarantee related to a certified film production), and

(iii) a taxpayer's at-risk amount shall be reduced by any amount owing by him or a related person to the partnership;

(f) "exempt interest" means a prescribed limited partnership interest, or a limited partnership interest in a partnership that was carrying on a business on February 25, 1986, where there has not after that date been a substantial contribution of capital to the partnership or substantial partnership borrowings and, for this purpose, an amount will not be considered to be substantial where

(i) the funds were required by the partnership to make an expenditure pursuant to the terms of a written agreement entered into before February 26, 1986,

(ii) the funds were raised pursuant to the terms of a prospectus, preliminary prospectus or registration statement filed before February 26, 1986 and, where required by law, accepted for filing by a public authority in Canada pursuant to and in accordance with the securities legislation of Canada or of any province, or

(iii) the use of the funds was incidental to, or necessary for, the business that was carried on by the partnership on February 25, 1986 but not including the use of any funds for a significant expansion of the business; and

(g) where at any time after February 25, 1986, a taxpayer has acquired a limited partnership interest from a partner of the partnership, for the purposes of determining the taxpayer's at-risk amount in respect of that partnership interest he shall be deemed to have acquired the interest at a cost equal to the lesser of

(i) his actual cost, and

(ii) the at-risk amount in respect of the partnership interest of the partner from whom he acquired the interest.

Corporate Income Tax Rate Reductions

(20) That the basic rates of federal corporate tax, net of the 10% provincial abatement, applicable to various sources of income be reduced over the three-year period commencing July 1, 1987 in accordance with the following schedule:

	Percentage Rate Effective July 1		
	1987	1988	1989
Active Business Income Eligible for the Small Business Deduction			
Canadian manufacturing and processing income	8	8	8
Other	14	13	13
Active Business Income not Eligible for the Small Business Deduction			
Canadian manufacturing and processing income	28	27	26
Other	35	34	33
Income other than Active Business Income			
Canadian-controlled private corporations, investment corporations and mutual fund corporations		– Remains at 36 –	
Other corporations	35	34	33

Corporate Surtax

(21) That a surtax be imposed on all corporations (other than non-resident-owned investment corporations) effective after December 31, 1986 at a rate of 3% of federal tax otherwise payable, before any deduction in respect of foreign tax credits, investment tax credits, employment tax credits, share-purchase and scientific research tax credits and the credit for political contributions but after deduction of 10% of taxable income not earned in any province and of 5% of taxable income earned in the Nova Scotia offshore area.

Investment Tax Credit

(22) That the provisions relating to the investment tax credit be amended as follows:

(a) except as provided in subparagraph (c), the credit for properties currently entitled to the 7% rate be reduced to 5% for property acquired in 1987, 3% for property acquired in 1988 and be repealed for property acquired after 1988,

(b) the credit for properties currently entitled to the 10% rate be reduced to 7% for property acquired in 1987, 3% for property acquired in 1988 and be repealed for property acquired after 1988,

(c) the credit be extended at a rate of 20% to qualified property acquired after February 25, 1986 for use in a prescribed area of Canada offshore of the provinces of Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick and the Gaspé Peninsula,

(d) the credit be extended at a rate of 40% to certified property acquired after 1986 other than certified property described in subsection 127(9) of the Act, and

(e) that for projects approved after February 25, 1986, the threshold for eligibility for the special Cape Breton investment tax credit be reduced to $25,000.

Refundable Investment Tax Credit

(23) That the provisions relating to the refundable investment tax credit be amended

(a) to extend their application to expenditures made and property acquired before 1989, and

(b) to provide that the 40% rate of refund apply to all taxpayers in respect of unutilized special Cape Breton investment tax credits earned after May 23, 1985 and before 1989.

Corporate Distributions Tax

(24) That the 12 1/2% corporate distributions tax imposed under Part II of the Act be repealed with respect to taxable dividends paid after December 31, 1986.

Non-Resident Withholding Tax – Interest

(25) That

(a) after Royal Assent to any measure giving effect to this paragraph, interest paid or credited on an arm's length foreign currency deposit with a prescribed person who is a member of the Canadian Payments Association be exempt from the non-resident withholding tax,

(b) the exemptions from non-resident withholding tax for interest not apply to any interest paid or credited on a debt obligation issued or extended after February 25, 1986 (otherwise than pursuant to a commitment in writing to issue or extend the obligation made on or before that date) where the interest is computed, in whole or in part, by reference to revenue, profit, cash flow or other similar criteria, and

(c) the exemption from non-resident withholding tax in respect of arm's length long-term indebtedness of a corporation be extended for interest paid or credited after February 25, 1986 where the indebtedness is convertible into shares of the corporation and under the terms of the share or any agreement relating thereto the shareholder may not require that within 5 years from the issuance of the indebtedness the shares will be redeemed, cancelled or the paid-up capital thereof will be reduced or the shares will be acquired by the corporation.

Small Business Corporations

(26) That, effective after 1985, a Canadian-controlled private corporation qualify for all purposes of the Act as a small business corporation at any time if, at that time, the corporation used all or substantially all of its assets in an

active business carried on primarily in Canada and for the purposes of the provisions of the Act relating to business investment losses a corporation qualify as a small business corporation if, at any time in the immediately preceding 12-month period, the corporation so qualified.

ADMINISTRATION

Investment Income Reporting

(27) That after a date to be fixed by proclamation following Royal Assent to any measure giving effect to this paragraph, every individual assigned a Social Insurance Number be required to provide that number to any person or partnership who will be required for any calendar year commencing after that date to issue him an information return with respect to treasury bills.

Interest on Payments and Refunds

(28) That in respect of a period commencing after a date to be fixed by proclamation following Royal Assent to any measure giving effect to this paragraph, interest computed in respect of the payment and refund of tax, interest and penalties be compounded on a daily basis.

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

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

Deduction for Corporations

That it is expedient to amend the Petroleum and Gas Revenue Tax Act to provide among other things that for the 1986 and subsequent taxation years a corporation be entitled to a deduction of $10,000 in computing its production revenue under Division I of the Act provided the corporation or any associated corporation has not claimed the small producer credit for the year.

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:

1. That the excise duty on the spirits specified in subsection 1(1) of Part I of the schedule to the Act be imposed at the rate of $10.733 on every litre of absolute ethyl alcohol distilled in Canada and so in proportion for any less quantity than one litre (1 L).

2. That the excise duties on beer be imposed at the following rates:

(a) on all beer or malt liquor containing more than 2.5 per cent absolute ethyl alcohol by volume, $19.323 per hectolitre;

(b) on all beer or malt liquor containing more than 1.2 per cent absolute ethyl alcohol by volume but not more than 2.5 per cent absolute ethyl alcohol by volume, $9.660 per hectolitre; and

(c) on all beer or malt liquor containing not more than 1.2 per cent absolute ethyl alcohol by volume, $1.789 per hectolitre.

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

(a) on manufactured tobacco of all descriptions except cigarettes, per kilogram actual mass, $2.339;

(b) on cigarettes having a mass of not more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, $10.120 per thousand;

(c) on cigarettes having a mass of more than one thousand three hundred and sixty-one grams (1 361 g) per thousand, $11.946 per thousand;

(d) on cigars, $5.576 per thousand; and

(e) on Canadian raw leaf tobacco when sold for consumption, per kilogram actual mass, $0.60844.

4. That any enactment founded on paragraphs 1 to 3 come into force on February 27, 1986.

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:

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

(a) 1.79 cents per litre on wines of all kinds containing not more than 1.2 per cent of absolute ethyl alcohol by volume;

(b) 21.47 cents per litre on wines of all kinds containing more than 1.2 per cent of absolute ethyl alcohol by volume but not more than 7 per cent of absolute ethyl alcohol by volume; and

(c) 44.72 cents per litre on wines of all kinds containing more than 7 per cent of absolute ethyl alcohol by volume.

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

(a) For each five cigarettes or fraction of five cigarettes contained in any package.. $0.10277;

(b) Manufactured tobacco, including snuff, but not including cigars and cigarettes.. $6.254 per kilogram.

3. That the tax imposed on an amount paid or payable for transportation of a person by air that begins in the taxation area and ends in the taxation area be increased to 10 per cent of the amount paid or payable or such lesser amount as may be prescribed by order of the Governor in Council.

4. That the rate of Telecommunication Programming Services Tax be increased to eight per cent.

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

(a) eight per cent on the sale price of goods enumerated in Schedule V to the Act;

(b) fifteen 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) twelve per cent on the sale price of all other goods to which subsection 27(1) of the Act applies.

6. That the consumption or sales tax on the following petroleum products be imposed at the following rates:

(a) gasoline, regular	\$0.00329 per litre;
(b) gasoline, unleaded	\$0.00360 per litre;
(c) gasoline, premium leaded and unleaded	\$0.00370 per litre;
(d) diesel fuel	\$0.00302 per litre.

multiplied by the ad valorem rate of consumption or sales tax, expressed as a decimal number and multiplied by one hundred, which applies to goods other than wines and goods on which a duty of excise is imposed under the Excise Act and goods enumerated in Schedule V to the Act.

7. That the rates per litre specified in any enactment founded on paragraph 6 of this motion for the goods listed in subparagraphs (a), (b) and (c) of that paragraph be adjusted quarterly on the first day of January, April, July and October of each year, commencing on April 1, 1986, so that the rates applicable during the quarter commencing on any such adjustment day are equal to the rounded product of the rates that would have been applicable if no adjustment had been made pursuant to any enactment founded on this paragraph and the ratio, adjusted or altered in such manner as may be prescribed by regulation of the Governor in Council on the recommendation of the Minister of Finance and rounded, that the Industrial Product Price Index for Motor Gasoline for the twelve month period ending on the last day prior to the immediately preceding quarter bears to the Industrial Product Price Index for Motor Gasoline for the twelve month period ending on September 30, 1985.

8. That the rate per litre specified in any enactment founded on paragraph 6 of this motion for the goods listed in subparagraph (d) of that paragraph be adjusted quarterly on the first day of January, April, July and October of each year, commencing on April 1, 1986, so that the rate applicable during the quarter commencing on any such adjustment day is equal to the rounded product of the rate that would have been applicable if no adjustment had been made pursuant to any enactment founded on this paragraph and the ratio, adjusted or altered in such manner as may be prescribed by regulation of the Governor in Council on the recommendation of the Minister of Finance and rounded, that the Industrial Product Price Index for Diesel Fuel for the twelve month period ending on the last day prior to the immediately preceding quarter bears to the Industrial Product Price Index for Diesel Fuel for the twelve month period ending on September 30, 1985.

9. That when printed matter is produced or purchased in Canada by a board of trade, a chamber of commerce, a municipal or an automobile association, or other similar organization, and is available to the general public without charge for the

promotion of tourism, and the consumption or sales tax thereon has been paid, the Minister of National Revenue be authorized, on application by that organization within two years from the time the printed matter was so produced or purchased, to pay to the applicant an amount equal to the tax so paid.

10. That the exemption from the consumption or sales tax for printed matter imported by any person for the promotion of tourism be broadened to include printed matter that was produced or purchased outside Canada by a board of trade, a chamber of commerce, a municipal or an automobile association, or other similar organization, and is to be made available to the general public without charge for the promotion of tourism.

11. That where gasoline or diesel fuel has been purchased by and for the personal or official use of a person described in Section 2 of Part II – Diplomatic – of Schedule III to the Act who represents a country designated in regulations made pursuant to any enactment founded on paragraph 12 of this motion and the consumption or sales and excise taxes have been paid thereon, the Minister of National Revenue be authorized, on application by the purchaser made to the Minister in such form and manner as the Minister may prescribe, within two years from the time the gasoline or diesel fuel was purchased, to pay an amount equal to the amount of the consumption or sales and excise taxes paid thereon.

12. That the Governor in Council on the recommendation of the Secretary of State for External Affairs be authorized to make regulations designating countries for the purposes of any refund that may be provided pursuant to any enactment founded on paragraph 11 of this motion where he is satisfied that such countries extend similar relief to Canadian diplomats.

13. That the application of any demand for payment issued by the Minister of National Revenue, for the purposes of collecting taxes and other sums payable by a tax debtor under the Act be limited

(a) in the case of a demand to a person in respect of amounts that the Minister knows or suspects will be paid or become payable to the tax debtor, to amounts that will be paid or become payable within 90 days after service of the demand, and

(b) in the case of a demand to a person to whom the Minister knows or suspects book debts of the tax debtor have been or will be assigned, to amounts that are paid to the assignee within 90 days after service of the demand.

14. That the fuel tax rebate program be extended to apply to gasoline and diesel fuel purchased or imported on or before December 31, 1987.

15. That any enactment founded on:

(a) paragraphs 1, 2, 9 and 10 come into force on February 27, 1986;

(b) paragraphs 4, 5, 6, 7 and 8 come into force on April 1, 1986.

16. That any enactment founded on paragraph 3 come into force on:

(a) May 1, 1986 in respect of any amount paid or payable on or after that date, in the case of a tax imposed on an amount paid or payable in Canada, and

(b) August 1, 1986 in respect of any amount paid or payable for transportation of a person by air which includes an emplanement in Canada on or after that date on a specific flight having as a destination an airport in the taxation area outside Canada and deplanement by the person from the flight at an airport outside Canada, in the case of a tax imposed on an amount paid or payable outside Canada.

Notice of Ways and Means Motion to Amend the Customs Tariff

Notice of Ways and Means Motion to Amend the Customs Tariff

1. That the *Customs Tariff* be amended by adding thereto, immediately after section 23 thereof, the following section:

"24.(1) The rate of customs duty shall, subject to any other provisions of this section, be free in respect of goods that are the product of the following countries:

Anguilla
Antigua and Barbuda
Bahamas
Bermuda
Barbados
Belize
British Virgin Islands
Cayman Islands
Dominica
Grenada
Guyana
Jamaica
Montserrat
St. Christopher-Nevis
St. Lucia
St. Vincent and the Grenadines
Trinidad and Tobago
Turks and Caicos Islands

(2) The benefits of duty-free entry pursuant to subsection (1) do not apply unless

(a) the goods are bona fide the product of a country referred to in subsection (1);

(b) a substantial portion of the value of the goods, determined in accordance with the regulations, was produced by the industry of one or more countries referred to in subsection (1); and

(c) the goods were shipped from the producing country on a through bill of lading and consigned to a consignee in a specified port in Canada.

(3) Proof of origin, determined in accordance with the regulations, shall be furnished, in respect of goods admitted to duty-free entry pursuant to this section, at the same time and in the same place as the goods are accounted for under subsection 19(2) or section 32 of the Customs Act, whenever they are accounted for thereunder.

(4) Any decision of the Minister as to the origin of goods is final.

(5) The following goods are not eligible for duty-free entry pursuant to subsection (1):

(a) the goods enumerated in any of the tariff items in Group X of Schedule A; and

(b) the goods enumerated in tariff items 27101-1, 27102-1, 61100-1 to 61115-1 inclusive, 61120-1, 62200-1, 62300-3, 62300-4 and 62305-1.

(6) The Governor in Council may, by order and on such terms and conditions as may be specified in the order, exempt the goods produced in a country referred to in subsection (1) from the condition of through shipment as set out in paragraph (2)(c) or of furnishing proof of origin as set out in subsection (3).

(7) The Governor in Council may, by order, from time to time withdraw the benefit of duty-free entry pursuant to subsection (1), in whole or in part, from any country to which that benefit has been extended.

(8) The rates of customs duty applicable to goods described in an order made under subsection (7) shall be, from and after the date of the order, the rates of customs duty that would, but for this section, have been applicable to those goods.

(9) Notwithstanding any other Act of Parliament or any regulation, whether in respect of any particular country or generally, this section does not apply directly or indirectly in the case of any country to which the benefits of duty-free entry have not been specifically extended pursuant to subsection (1).

(10) The Governor in Council, for the purposes of this section, may make regulations

(a) respecting that which constitutes goods that are bona fide the product of a country referred to in subsection (1);

(b) respecting the determination of the origin of goods;

(c) prescribing the portion of the value of goods produced by the industry of one or more countries, including Canada, that constitutes a substantial portion for the purposes of paragraph (2)(b); and

(d) generally to carry out the provisions of this section.

(11) The Governor in Council may, by order, add to or delete from the list of countries set out in subsection (1) in order to reflect a change of name of any of those countries and no addition to or deletion from the list shall affect the benefits of duty-free entry pursuant to this section of any country.

(12) For the purposes of this section "country" means one of the Commonwealth and Dependent Territories."

2. That Schedule A to the said Act be amended by striking out tariff items 30620-1, 31500-1, 35235-1, 41014-1, 41417-2, 43150-1, 44059-1, 44062-1, 44100-1, 44125-1, 44300-12, 44305-1, 44544-1, 44544-2, 44643-1, 46400-1, 47600-1, 47605-1, 47615-1, 49105-1, 53415-1, 53417-1, 56255-1, 56930-1, 56935-1, 61815-2, 61815-5, 61815-6, 68200-1, 69105-1, 70200-1, 70311-1, 85800-1, and 93404-6 and the enumerations of goods and the rates of duty set opposite each of those items and by inserting in Schedule A to the said Act the items, enumerations of goods and rates of duty specified in the schedule to this motion.

3. That the French version of Schedule A to the said Act be amended by striking out in tariff item 44533-7 the reference to "pour usage domestique,".

4. That any enactment founded on paragraph 1 of this motion shall come into force or be deemed to have come into force on June 15, 1986 and shall apply to all goods imported or taken out of warehouse for consumption on or after that day, and to goods previously imported for which no entry for consumption is made before that day.

5. That any enactment founded on paragraphs 2 and 3 of this motion shall be deemed to have come into force on the 27th day of February 1986 and to have been applied to all goods mentioned therein imported or taken out of warehouse for consumption on or after that day, and to have applied to goods previously imported for which no entry for consumption was made before that day.

6. That any regulation made under any enactment founded on paragraph 1 of this motion shall, if the regulation so provides, have retroactive effect and be deemed to have come into force on June 15, 1986 or on any date thereafter as specified in the regulation.

SCHEDULE

						Rates in Effect Prior to Rates Proposed in this Motion			
Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
31500-1	Carbons or carbon electrodes over three inches in circumference or outside measurement and not exceeding thirty-five inches in circumference or outside measurement; carbons for use in the manufacture of dry batteries and dry cells	Free	Free	Free	Free	Free	Free	Free	Free
32101-1	*Plate, sheet, float, rolled or cast glass, tempered, n.o.p.*	10 p.c.	11.1 p.c.	22.5 p.c.	7 p.c.	10 p.c.	11.1 p.c.	22.5 p.c.	7 p.c.
	on and after January 1, 1987	10 p.c.	10.2 p.c.	22.5 p.c.	6.5 p.c.				
35235-1	Centrifugally cast bronze shells or tubes, not further manufactured than turned and bored longitudinally, for use in the manufacture of rolls for paper-making machinery	Free	Free	30 p.c.	Free	Free	Free	30 p.c.	Free
	Machinery and apparatus for use in mining, quarrying, the development of mineral deposits, or the processing of ores, metals or minerals, namely:								
	Coal cutting machines;								
	Dust collectors;								
	Elevating platforms, including raise climbers, for use underground;								
	Loading machines, including draglines and power shovels;								
	Scales for use with conveyors;								
	Parts of all the foregoing:								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
41014-1	Coal cutting machines; Loading machines, including draglines and power shovels, other than wheel type integral excavating front-end loaders with a bucket capacity for general-purpose use of 16 cubic yards or less; Parts, other than wire rope *and buckets*, of all the foregoing	Free	Free	Free	Free	Free 5 p.c.	Free 9.9 p.c.	Free 25 p.c.	Free 5 p.c.
	Electronic data processing machines and apparatus; peripheral equipment for use therewith including data entry, data preparation and data handling machines and apparatus; accessories and attachments for use therewith; parts of all the foregoing; none of the foregoing to include telephone and telegraph apparatus and parts thereof:								
41417-2	Drum storage memories; disc packs; disc drives; disc files; disc cartridge cleaners; card readers; card punches; card readers/punches; paper tape readers and punches; badge readers and punches; document transport mechanisms; tape to card punches; reproducing punches; printers other than those incorporating keyboards; card or paper tape verifiers; collators; card sorters; process control apparatus which converts analog signals from or to digital signals, the								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	foregoing not to include sensors; card conditioning equipment	Free	Free	35 p.c.	Free	Free	Free	35 p.c.	Free
41417-3	*Parts of all the foregoing*	Free	Free	35 p.c.	Free	Free Free	3.9 p.c. Free	25 p.c. 35 p.c.	Free Free
43150-1	Geophysical precision instruments and equipment other than magnetometers, gravimeters, electromagnetic devices, induced polarization devices, germanium detectors, gamma gauges, betameters, devices to measure resistivity, self-potential devices, scintillation counters, spectrometers for gamma ray detection, *geophone stringers imported in any configuration*; parts, attachments, tripods, base plates and fitted cases for the foregoing	Free	Free	20 p.c.	Free	Free	Free	20 p.c.	Free
44034-4	*Barbless fish hooks*	Free	Free	30 p.c.	Free	Free	7.2 p.c.	30 p.c.	Free
44059-1	Auxiliary power units; Batteries; Bolts, cocks, cotter pins, eyelets, nuts, pins, rivets, screws, turnbuckles and clevis, washers; Brakes, with related operating gear; Carburettors; De-icing and anti-icing equipment; Direct or inertia starters with or without related operating gear; Distributors; Electric generators;								

						Rates in Effect Prior to Rates Proposed in this Motion			
Tariff Item		British Prefer-ential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Prefer-ential Tariff	British Prefer-ential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Prefer-ential Tariff
	Electric lamps;								
	Exhaust gas analyzers;								
	Fittings and couplings;								
	Forgings and castings;								
	Fuel pressure warning devices;								
	Hinges;								
	Hydraulic jacks;								
	Hydraulic pumps;								
	Ignition coils;								
	Instruments;								
	Landing and navigation lights;								
	Magnetos;								
	Oil coolers;								
	Pressure fire extinguishers;								
	Primer pumps;								
	Propellers and helicopter rotors;								
	Radio for navigation and air traffic communication;								
	Seats;								
	Shapes or sections, rolled, drawn or extruded, and bars, rods, tubes, plate, sheet and strip, of any metal or alloy thereof;								
	Spark plugs;								
	Swaged wires and tie rods;								
	Tires and tire inner tubes;								
	Vacuum pumps with related operating gear;								
	Voltage control boxes;								
	Wheels;								
	Parts, *other than seat covers of textile fabric*, of all the foregoing;								

						Rates in Effect Prior to Rates Proposed in this Motion			
Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	All of the foregoing for use in aircraft, aircraft engines, airborne aircraft equipment, or parts of aircraft, aircraft engines, or airborne aircraft equipment	Free	Free	27.5 p.c.	Free	Free	Free	27.5 p.c.	Free
44062-1	Hinges entitled to entry under tariff items 35200-1, 35400-1 and 36215-1; Furniture entitled to entry under tariff items 35400-1, 44603-1, 61800-1 and 93907-1; Castings entitled to entry under tariff items 35400-1 and 39000-1; Forgings entitled to entry under tariff item 39200-1; Sealed-beam lamps entitled to entry under tariff items 44504-1, 44504-2, 44504-3, 44504-4 and 44504-5; Microphones entitled to entry under tariff item 44536-1; Magnesium castings entitled to entry under tariff item 71100-1; Mirrors, optically worked, entitled to entry under tariff item 32305-1; Glassware, optically worked, entitled to entry under tariff item 32648-1; Goods except parts, entitled to entry under tariff items 44028-1, 44300-1, 44300-2, 44514-1, 44538-3, 44538-4 and 44540-1;								

						Rates in Effect Prior to Rates Proposed in this Motion			
Tariff Item		British Prefer-ential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Prefer-ential Tariff	British Prefer-ential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Prefer-ential Tariff
	Goods entitled to entry under tariff items 31200-1, 36800-1, 41417-1, 41417-2, *41417-3*, 41505-1, 41505-2, 41505-3, 42400-1, 42405-1, 42700-1, 42701-1, 43005-1, 43300-1, 44053-1, 44057-1, 44059-1, 44500-1, 44502-1, 44512-1, 44516-1, 44524-1, 44524-7, 44524-8, 44524-9, 44524-10, 44524-11, 44526-1, 44532-1, *44532-2*, 44533-1, 44533-8, 46200-1 and 47100-1; Non-electric parts of water closets.								
	All the foregoing when for use in the manufacture, repair, maintenance, rebuilding, modification or conversion of the goods enumerated in tariff item 44060-1	Free	Free	27.5 p.c.	Free	Free	Free	27.5 p.c.	Free
						11.3 p.c.	11.3 p.c.	30 p.c.	7.5 p.c.
44100-1	Guns, *n.o.p.*; *.22 calibre rimfire bolt action rifles and .22 calibre rimfire auto-loading (semi-automatic) rifles, not being target rifles*; cannons or other firearms, n.o.p.; cartridge cases, cartridges, primers, percussion caps, wads or other ammunition, n.o.p.; bayonets, swords, fencing foils and masks; gun or pistol covers or cases, game bags, loading tools and cartridge belts of any material............................	10 p.c.	12.4 p.c.	30 p.c.	Free	10 p.c.	12.4 p.c.	30 p.c.	Free
	on and after January 1, 1987	10 p.c.	11.3 p.c.	30 p.c.	Free				

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
44125-1	*Rifles and shotguns, n.o.p.*; pistols; *combination shotgun rifles*; *firearms with interchangeable shotgun and rifle barrels*; parts of the foregoing	Free	5.8 p.c.	30 p.c.	Free	Free	5.8 p.c.	30 p.c.	Free
	on and after January 1, 1987	Free	5.5 p.c.	30 p.c.	Free	10 p.c.	12.4 p.c.	30 p.c.	Free
	Apparatus for cooking, designed for household use; parts thereof:								
44300-12	Parts of gas stoves or ranges	15 p.c.	15 p.c.	30 p.c.	10 p.c.	15 p.c.	15 p.c.	30 p.c.	10 p.c.
	on and after January 1, 1987	13.4 p.c.	13.4 p.c.	30 p.c.	8.5 p.c.				
44544-1	Transistors and other semiconductor devices; parts thereof; materials for use in the manufacture thereof	Free	Free	25 p.c.	Free	Free	5.4 p.c.	25 p.c.	Free
						Free	Free	25 p.c.	Free
44619-1	*Stainless steel vacuum evaporator masks, having a 90 p.c. front etch and 10 p.c. back etch, for the production of photocells*	Free	Free	35 p.c.	Free	10 p.c.	11.1 p.c.	35 p.c.	7 p.c.
44643-1	Articles of iron, steel or nickel, or of which iron, steel or nickel are the component materials of chief value, for use in the manufacture of electric storage batteries	7.2 p.c.	7.2 p.c.	20 p.c.	4.5 p.c.	7.2 p.c.	7.2 p.c.	20 p.c.	4.5 p.c.
	on and after January 1, 1987	6.8 p.c.	6.8 p.c.	20 p.c.	4.5 p.c.				
47600-1	X-ray apparatus and X-ray film; microscopes, illuminating devices and stands for use therewith; *prepared surgical sutures*; the following surgical, dental, veterinary and diagnostic								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
						British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	articles: instruments; sterilizers; cobalt-therapy units; anaesthesia, surgical suction and oxygen administering apparatus including motive power and wall outlets but not piping systems. Parts of all the foregoing; electric light lamps designed for use with all the foregoing; portable cases and containers for all the foregoing...........	Free	Free	Free	Free	Free	Free	Free	Free
47605-1	*Fibre optic* operating room lights; chairs and tables for surgical operating purposes; infant incubators; infant and patient medical-alert or identification devices including beads, tapes and ribbons of any material, cases therefor and equipment for their application; electrocardiographs, paper and sensitized film for use therein; unexposed instant film; apparatus for sterilizing purposes, including bedpan washer-sterilizers but not including washing nor laundry machines; parts of all the foregoing; electroencephalographic paper. All for the use of any public hospital, under such regulations as the Minister may prescribe..	Free	Free	Free	Free	Free	Free	Free	Free
	Machinery and apparatus for use in exploratory or discovery work in connection with oil or natural gas wells or for the development, maintenance, testing, depletion or production of such wells up to and including the wellhead assembly or surface oil pumping unit; well-drilling machinery and apparatus for use in the								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
						British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	exploration, discovery, development or operation of potash or rock salt deposits; these provisions shall not include geophysical precision instruments and automotive vehicles or chassis on which the machinery and apparatus are mounted:								
	All other machinery and apparatus, and parts thereof; parts of goods enumerated in item 49103-1:								
49105-1	Bolted steel tanks; Equipment for testing/inspecting physical properties; Filter presses; Flexible metal tubing, non-electric; Oil well pressure maintenance or pressure improvement equipment; Pressure measuring/controlling instruments; Roller chain: power transmission, conveyor and offset sidebar types; Scientific equipment for oceanographic exploration and discovery work; Seismic instruments *other than geophone stringers imported in any configuration*; Surveying instruments; Parts of all the foregoing, other than wing unions for oil well pressure maintenance or pressure improvement equipment................	Free	Free	Free	Free	Free	Free	Free	Free

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
						British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
49221-1	*Materials for use in the manufacture of machinery and apparatus for use in the distillation or recovery of products from natural gas*	Free	Free	Free	Free	Various	Various	Various	Various
	Press blankets or blanketing:								
53415-1	For use with *offset* printing presses	10 p.c.	12.9 p.c.	25 p.c.	8.5 p.c.	10 p.c.	12.9 p.c.	25 p.c.	8.5 p.c.
	on and after January 1, 1987	10 p.c.	12.5 p.c.	25 p.c.	8 p.c.				
53416-1	*Other*	Free	Free	10 p.c.	Free	Free	Free	10 p.c.	Free
56255-1	Fabrics for use in the manufacture of screens for printing	Free	Free	45 p.c.	Free	Free	Free	45 p.c.	Free
56930-1	Hat braids, whether woven, knitted or plaited, not exceeding 152 mm in width, for use in the manufacture of hat bodies or shapes, but not for use in the ornamentation or trimming of such bodies or shapes	Free	Free	Free	Free	Free	Free	Free	Free
61815-2	Solid, press-on, industrial rubber tires, n.o.p.; off-highway tires, the section width of the tire measuring at least 16 inches including normal sidewalls but not including protective side ribs, bars or decorations, and the diameter of the tire rim measuring at least 24 inches, *other than 3600 × 51 and 4000 × 57 size tires*	11.7 p.c.	11.7 p.c.	35 p.c.	7.5 p.c.	11.7 p.c.	11.7 p.c.	35 p.c.	7.5 p.c.
	on and after January 1, 1987	10.2 p.c.	10.2 p.c.	35 p.c.	6.5 p.c.				
61815-5	*Off-highway tires of sizes 3600 × 51 and 4000 × 57*	Free	Free	35 p.c.	Free	11.7 p.c.	11.7 p.c.	35 p.c.	7.5 p.c.

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion			
						British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	Pneumatic tires, wholly or in part of rubber, other than tires entitled to entry under tariff items *44059-1*, 61810-1, 61815-2 *and 61815-5*, and not including used or retread tires:								
61815-6	Industrial, passenger car, bicycle, motorcycle, bus, truck, racing car, farm implement, tractor or off-highway tires	11.6 p.c.	11.6 p.c.	35 p.c.	7.5 p.c.	11.6 p.c.	11.6 p.c.	35 p.c.	7.5 p.c.
	on and after January 1, 1987	10.7 p.c.	10.7 p.c.	35 p.c.	7 p.c.				
61815-7	N.o.p.	12.6 p.c.	12.6 p.c.	35 p.c.	8 p.c.	12.6 p.c.	12.6 p.c.	35 p.c.	8 p.c.
	on and after January 1, 1987	11.7 p.c.	11.7 p.c.	35 p.c.	7.5 p.c.				
68200-1	Fish hooks, for deep-sea or lake fishing, not smaller in size than number 2.0; Fishing nets and nettings of all kinds; Lures, jiggers and artificial baits; Metal panel devices for use in keeping nets open; Metal swivels; Net and line floats of any material except wood; Threads, twines, marlines, fishing lines, rope and cordage, not exceeding one and one-half inches in circumference; Spat collectors and collector holders; All the foregoing for use in commercial fishing, or in the commercial harvesting of marine plants, under such regulations as the Minister may prescribe; Carapace measures of any material	Free	Free	Free	Free	Free	Free	Free	Free

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
69105-1	Communion sets; oil stocks; crosiers; benitiers; sprinklers; incensers; incense boats; baptismal shells or fonts; scapulars; chaplets; rosaries; religious statues, statuettes, medals and crosses; religious figures and plaques, mounted or not; Scroll sets; Chanuka candlesticks; Kiddush sets; Mezuzah boxes; Havdalah sets; Seder plates; *religious ancestral shrines*; parts of the foregoing..........	Free	Free	Free	Free	Free 9.9 p.c.	Free 9.9 p.c.	Free 25 p.c.	Free 6.5 p.c.
69801-1	*Articles specially designed for guide-dogs for the blind*..........	Free	Free	Free	Free	Free Various	Free Various	Free Various	Free Various
70200-1	Vehicles, aircraft, water borne craft *or reusable cargo containers having a length of at least 20 feet and an internal capacity of at least 14 cubic meters*, engaged in the international commercial transportation of passengers or goods, in accordance with such terms and conditions as the Governor in Council may prescribe by regulations *for each mode of conveyance provided for in this tariff item*......... Goods entitled to entry under this tariff item shall be exempt from all imposts, notwithstanding the provisions of the Act or any other Act.	Free	Free	Free	Free	Free	Free	Free	Free

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	Goods (not including alcoholic beverages, cigars, cigarettes and manufactured tobacco except where specifically provided therefor) acquired abroad by a resident or temporary resident of Canada or by a former resident who is returning to Canada to resume residence for his personal or household use or as souvenirs or gifts, but not bought on commission or as an accommodation for any other person or for sale, and declared by him at the time of his return to Canada, under such regulations as the Minister may prescribe:								
70311-1	Valued at not more than three hundred dollars (including alcoholic beverages not exceeding forty ounces, and tobacco not exceeding fifty cigars, two hundred cigarettes and two pounds of manufactured tobacco) *whether or not* included in the baggage accompanying the person returning from abroad after an absence from Canada of not less than seven days	Free	Free	Free	Free	Free Various	Free Various	Free Various	Free Various
	Goods (other than alcoholic beverages, cigars, cigarettes and manufactured tobacco) acquired *abroad* that are not included in the baggage accompanying the person *returning from abroad* may be entered under this item if they are declared by him at the time of his return to Canada.								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff
	The exemption granted under this item shall be extended only to a person who, upon his return to Canada, establishes in such form and manner as the Minister may specify by regulation that he has been abroad for a minimum period of seven days, which form and manner may differ according to the country visited or the mode of travel used.								
	The exemption granted under this item shall not be claimed more than once in a calendar year nor combined with an exemption under tariff item 70310-1 with respect to the same trip abroad.								
	Notwithstanding the provisions of this Act or any other Act, the value for duty as otherwise determined under the *Customs Act* in the case of any goods described under tariff items 70310-1, 70311-1, and 70312-1 which, but for the fact that the value thereof exceeds the maximum value specified in such items, would have been entitled to entry under one of those items, shall be reduced by an amount equal to the value specified in those items.								
	Goods entitled to entry under any item of this heading shall be exempt from all other imposts notwithstanding the provisions of this Act or any other Act.								

Tariff Item		British Preferential Tariff	Most-Favoured-Nation Tariff	General Tariff	General Preferential Tariff	Rates in Effect Prior to Rates Proposed in this Motion: British Preferential Tariff	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 Tariff	Rates in Effect Prior to Rates Proposed in this Motion: General Preferential Tariff
	The Minister by regulation may, notwithstanding any other provision in customs legislation relating to the entry of goods, excuse a person from any requirement for making a written declaration or entry with respect to goods entitled to entry under any item of this heading.								
	The Governor in Council may, by order, on the recommendation of the Minister of Finance, reduce the maximum value of goods that are entitled to entry under any item of this heading but every order made pursuant to this authority shall be published in the *Canada Gazette*, and shall cease to have any force or effect with respect to any period following the 180th day from the date of its making or, if Parliament is not then sitting, the 15th day next thereafter that Parliament is sitting, unless not later than that day the order is approved by resolution adopted by both Houses of Parliament.								
85800-1	Zeolites, *excluding compounded aluminum silicates*, for use in the manufacture of cracking catalysts for the refining of petroleum................	Free	Free	25 p.c.	Free	Free	Free	25 p.c.	Free

Notice of Ways and Means Motion
Respecting the Conversion of Certain Provisions of the Customs Tariff to Conform to the International Convention on the Harmonized Commodity Description and Coding System

Notice of Ways and Means Motion Respecting the Conversion of Certain Provisions of the Customs Tariff to Conform to the International Convention on the Harmonized Commodity Description and Coding System

That it is expedient to introduce a measure to provide, among other things:

1. for amendments to be made to the *Customs Tariff* to ensure that the provisions of that Act conform to Canada's international obligations under the International Convention on the Harmonized Commodity Description and Coding System;

2. for authority to be provided to the Governor in Council to amend the Schedules to the *Customs Tariff* to ensure that the Schedules to that Act conform to Canada's international obligations under the International Convention on the Harmonized Commodity Description and Coding System;

3. for any enactment founded on this motion to come into force on January 1, 1988 or on any subsequent day to be fixed by proclamation.