INFORMATION GUIDE

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SECTIONS

INTRODUCTION

The tax reform proposals are far-reaching in scope and in their impact. They are contained in a series of documents that provide detailed and frequently technical explanations which, taken together, run to several hundred pages.

This book is designed to provide an overview of tax reform and a guide to where specific information is found in the main documents.

The primary source of guidance is found in section 2. This section provides a brief tour of Tax Reform 1987 in capsule form. Opposite each item is an index of page references to the main reform documents.

The other sections of the book contain background and other supporting information. Included are a short summary of major changes to the tax system over the years; a glossary of terms that are commonly used throughout the reform documents; and where to obtain additional copies of the tax reform package or to get further information.

1. DESCRIPTION OF TAX REFORM PACKAGE

The tax reform package includes five primary documents and a series of additional booklets and pamphlets.

THE PRIMARY DOCUMENTS

The White Paper sets out the objectives of tax reform and provides an overview of the proposals for reform of the income and sales tax systems, along with their impact on households and businesses in Canada. It includes an assessment of the impact of tax reform on Canada's economic performance, the federal government's fiscal position and the consequences of the proposals for provincial governments.

The Income Tax Reform paper provides an assessment of the main features of the existing income tax system and its weaknesses, an overview of the key income tax reform measures, an analysis of their impact on individuals and corporations, a description of each reform measure in detail, a description of new tax compliance and anti-avoidance rules and the next steps in the reform process.

The Sales Tax Reform paper outlines the principles of a good sales tax, reviews the problems with the current federal sales tax, proposes a direction for change in the form of a broad-based, multi-stage sales tax, discusses alternative mechanisms for implementing the new tax either at the federal level or on a national basis and discusses interim changes to the current federal sales tax. An annex to the paper provides technical information essential to a detailed understanding of a multi-stage sales tax.

The Economic and Fiscal Outlook discusses the economic benefits of the proposed tax reforms, sets out the international economic environment and medium-term prospects for the Canadian economy reflecting the first stage of tax reform, outlines the impacts of personal and corporate tax reform on government revenues and expenditures, updates the 1986-87 and 1987-88 fiscal situations and provides an overview of the medium-term fiscal outlook.

The Minister's Speech is the text of the Minister of Finance's address in the House of Commons tabling the tax reform proposal.

ADDITIONAL PUBLICATIONS

A number of booklets outline key dimensions of tax reform in digest form. These include:

Personal Income Tax

Corporate Income Tax

Sales Tax

Excerpts from the Minister's Speech

A series of pamphlets highlights the benefits of changes to the personal income tax system:

How Tax Reform Benefits Families (Under 65)

How Tax Reform Benefits Single Persons Under 65

How Tax Reform Benefits People 65 and Over

How Tax Reform Benefits Students

A Fairer System: Converting Exemptions to Credits

A Fairer System: Enriching the Refundable Federal Sales Tax Credit

INDEX OF KEY INFORMATION
IN TAX REFORM 1987

2. INDEX OF KEY INFORMATION IN TAX REFORM 1987

Section 2 provides a capsule tour of Tax Reform 1987. Each item is indexed to pages in the main reform documents. The documents will be referred to by the following abbreviations:

- The White Paper ... WP
- The Income Tax Paper ... I
- The Sales Tax Paper ... S
- The Economic and Fiscal Outlook ... E
- The Minister's Speech ... MS

See also pages 83-86 of the White Paper for a table of cross-references by subject heading to individual measures proposed in tax reform.

	Document and Pages
2.A BACKGROUND TO TAX REFORM	
Why Tax Reform?	I 5-16 MS 1-2
The income tax system is riddled with special incentives that have led to unfairness, higher tax rates than necessary, erosion of tax revenues, increased complexity, and economic distortions and inefficiency.	I 5-13 WP 7-13 MS 1, 3
Corporate tax rates in Canada are now higher than those in the U.S. and other countries. Failure to close this gap would discourage economic activity and make our corporate tax system less competitive internationally.	I 12 MS 2, 6, 7, 8, 11
The federal sales tax is unfair to lower-income Canadians; too complex; impedes exports and increases investment costs; gives preferential treatment to imports; distorts production and distribution decisions; and is an unstable tax.	S 9-24 WP 14-17 MS 3, 8
Action Since September 1984	
To date the government has taken a number of actions to improve the fairness of the tax system, curb opportunities for tax avoidance and provide a better tax framework for economic growth.	WP 19-21 MS 1

	Document and Pages
Decision To Do Comprehensive Reform	
The need to speed up the incremental reform process and keep in step with our major trading partners prompted a comprehensive approach.	I 1 WP 21 MS 1
"Comprehensive" means that the tax reform measures are a package. Changes to personal, corporate and sales taxes are designed to be consistent with each other, with other government programs and initiatives and with the government's principles of fiscal responsibility.	I 3-4 WP 21-23 MS 2-3
Two-Stage Reform	
Changes will be made to the personal and corporate income tax systems in stage one of tax reform.	I 1 WP 22 MS 3, 8-9
Interim changes to the existing federal sales tax will be made pending introduction of a new sales tax system.	S 151-159 I 31,33 WP 22-23, 58-59 MS 9-10
An entirely new sales tax system will be introduced in stage two of tax reform, after the provinces have been consulted and Canadians have had an opportunity to become familiar with how the new tax works.	S 1-2,59 I 1 WP 22-23 MS 8-9

	Document and Pages
2.B TAX REFORM PHILOSOPHY/OBJECTIVES	
Improving the fairness of the tax system is the highest priority.	WP 3 MS 1-2
The tax system should encourage competitiveness, growth and jobs.	WP 4 MS 1-2
The tax system should be simpler to understand and comply with.	WP 4 MS 1
The tax system should be internally consistent and consistent with other government programs.	WP 5 MS 2
The tax system should provide a more reliable and balanced source of revenue to finance essential public services.	WP 5 MS 1, 3, 8
The tax reform proposals strike a balance among these objectives, recognizing the need for trade-offs and choices.	WP 6 MS 3
Basic characteristics of income tax continue	
Tax reform respects the essential elements of our current income tax system and continues to rely on taxing income from all sources in a progressive way.	I 2-3 WP 7 MS 8

	Document and Pages
2.C PERSONAL INCOME TAX PROPOSALS	
Personal tax rates will be lowered and the number of rate brackets reduced from 10 to three.	I 17,69-70 WP 26-28 MS 3-4
The 3-per-cent surtax on personal income will be removed upon implementation of the new sales tax system.	WP 29 MS 9
Further income tax reductions for middle-income individuals and families will be made when the new sales tax is implemented.	WP 59 MS 9
A major step in making the tax system more equitable is the conversion of personal exemptions and many deductions to tax credits. The tax value of the basic, married, age and disability credits will be increased for the majority of Canadians.	I 19-20, 70-72 WP 29-31 MS 2, 3-4
- Increasing the basic personal credit reduces taxes for lower-income Canadians and is the main reason why 850,000 individuals will have their federal income tax reduced to zero or will get a refund.	WP 29
- Converting the married exemption to a credit removes the current disincentive for a spouse to enter or return to the workforce.	I 19 WP 29-31
- Converting the age exemption to a $550 credit increases the tax saving that the existing exemption would provide to seniors in the new 17-per-cent tax bracket.	WP 31

	Document and Pages
- Any part of the disability credit not used will be transferable to the taxpayer's spouse, supporting parent or grandparent.	WP 31
- No change will be made in the current child care deduction. The tax treatment of child care expenses will be examined in the context of child care policy.	I 21 WP 31
A number of existing deductions will be converted to tax credits at a rate of 17 per cent, including deductions for pension income, tuition fees, medical expenses, charitable donations, CPP/QPP and unemployment insurance premiums. This will have no effect on people with taxable income under $27,500 but will reduce the tax savings for those earning more.	I 20-21, 72-78 WP 31-32 MS 4
- By converting the Pension Income Deduction to a credit, relief will be targetted better to lower-income pensioners.	WP 32
- Tuition fees: Students will be able to claim a credit of 17 per cent of post-secondary tuition fees and a $10 per month education credit. An important new feature will allow the transfer of the unused portion of up to $600 of credits to a supporting spouse, parent or grandparent.	I 20, 73-74 WP 32
- Charitable donations: This deduction will be 17 per cent of annual contributions up to $250 and 29 per cent for additional contributions.	I 21,77 WP 32

	Document and Pages
- Greater fairness will be achieved by converting the <u>Medical Expense Deduction</u> and <u>CPP/QPP contributions and UI premiums</u> made by employees to a credit of 17 per cent.	WP 32
The <u>refundable sales tax credit</u> will be increased and made available to more low-income families as part of the first stage of tax reform, and again further enriched and expanded in the second stage.	I 19-20 WP 32-33 S 45,158 MS 3, 8-9
A number of <u>deductions will be reduced or eliminated</u>, including those for capital gains, interest and dividend income, films, MURBs, meals and entertainment, automobiles and home office costs. These changes will broaden the tax base and help finance PIT rate reductions.	I 21-24, 78-94 WP 33-34 MS 5-6
- <u>Capital gains</u>: The lifetime capital gains exemptions for individuals will be held at the current $100,000 limit. The $500,000 lifetime exemptions already in effect for farmland will continue. Sale of small business shares will qualify for a $500,000 exemption in 1988. The proportion of a capital gain that will be included in taxable income will be increased.	I 21-22, 78-81 WP 34
- The <u>dividend tax credit</u> will be reduced in line with reductions in the corporate income tax rate.	I 23, 94-95 WP 34
- The $1,000 <u>interest and dividend income deduction</u> will be removed.	I 21, 81-82 WP 34

	Document and Pages
- Retirement savings: The new system announced last October will be retained but the new RRSP and RPP limits will be phased in more slowly.	I 22-23, 82 WP 34-35
- Deductions will be reduced for meals and entertainment and restricted in some cases for automobiles and home office expenses.	I 23-24, 83-88 WP 35
- The $500 employment expense deduction will be eliminated.	I 88 WP 35
- The ability to shelter non-film income through film investment write-offs is being reduced.	I 23, 93-94 WP 35
- The ability to deduct losses due to capital cost allowance against other income for multiple unit residential dwellings (MURBs) will be ended in 1990.	I 23,94 WP 35

Other Measures

Tax treatment of farm income: Easier-to-understand and more objective rules will determine whether, and to what extent, farm losses will be deductible against other sources of income. Clearer rules will provide certainty to farmers and will distinguish part-time from full-time farmers.	I 24, 89-93 WP 36 MS 5
With lower rates and fewer tax brackets, the forward averaging system will be eliminated beginning in 1988 and block averaging provisions for farmers and fishermen will end after 1987 so that they can complete any block started in 1987 or earlier.	I 96 WP 28

	Document and Pages
Faster payment of source deductions and quarterly instalments: To improve cash management, payment of source deductions, quarterly instalment payments of personal income taxes and remittance of sales and excise taxes will be accelerated. These measures do not affect amounts of tax owed.	I 96-97 WP 58-59 S 158-159 MS 10

More progressive

The impact of all these changes will make the personal income tax more progressive.	WP 28,39 MS 4

	Document and Pages
2.D CORPORATE INCOME TAX PROPOSALS	
Corporate taxes will increase by about $5 billion over the next five years.	I 31 WP 50-55 MS 6
The first stage of tax reform will include significant changes to the corporate income tax which will be phased in over 1988-1991.	WP 42 MS 6-7
Corporate tax rates will be reduced.	I 24, 25-26 98-99 WP 43-44 MS 6-7
The 3-per-cent surtax on corporate income tax will be removed in stage two of reform upon implementation of the new sales tax.	WP 44 MS 9
The corporate tax base will be broadened by almost 20 per cent by reducing the number of tax preferences.	I 24-29 WP 44 MS 6-7
- Capital cost allowance rates will be reduced to bring them more in line with actual rates of depreciation. Depreciation write-offs will commence only in the year assets are put into use.	I 25, 101-108 WP 45
- The inclusion rate for capital gains will be increased.	I 25, 99-101 WP 45

	Document and Pages
- Deductions for <u>earned depletion</u> will be phased out, but the flow-through share mechanism will be retained.	I 25,26 112-116 WP 48
- <u>Special tax provisions available for financial institutions and real estate companies</u> will be revised so that their share of the tax burden is closer to the average.	I 25,27,28, 43,120-128 WP 48-49
- Deductions for <u>meal and entertainment expenses</u> will be limited.	WP 49
- The after-tax financing advantages available to non-taxpaying companies through the <u>use of preferred shares</u> will be reduced.	I 25 WP 49-50

<u>Regional incentives</u>

Many <u>incentives</u> important to Canada's <u>resource-based industries</u> will be retained.	I 26 WP 45-46 MS 7
The <u>regional tax credits</u> now in place for investment in the Atlantic and Gaspé regions, Cape Breton and special investment tax credit regions will be reduced but their relative incentive value will be maintained.	I 108-110 WP 46-47 MS 6

<u>Mining</u>

With the exception of earned depletion, all existing incentives for mining will be retained. Mining will continue to enjoy one of the lowest effective tax rates on new investment of any sector.	I 26 WP 48 MS 7

	Document and Pages
<u>Oil and Gas</u>	
For the oil and gas sector, reduced tax rates will more than offset the small degree of base broadening for the industry as a whole. The industry will continue to have access to flow-through shares.	I 26 WP 48 MS 7
<u>R&D Incentives</u>	
The current tax incentives for R&D will not be changed with the exception of buildings claimed for R&D.	I 28,117-118 WP 46-47 MS 7
<u>Other Changes to the Investment Tax Credit (ITC)</u>	
The amount of ITC that can be used to reduce federal tax will be <u>limited</u>. <u>Refundability provisions</u> for ITCs will be <u>changed</u>.	WP 47 I 28, 111-112

	Document and Pages
2.E <u>PROPOSALS TO PREVENT PERSONAL AND CORPORATE TAX AVOIDANCE</u>	
Measures are proposed to deal with improper tax avoidance activity and to strengthen requirements for information reporting.	I 25, 129-132, 137-149; WP 55-58; MS 6-7
- A <u>new general anti-avoidance rule</u> will help prevent abusive tax avoidance arrangements.	I 130; WP 57
- Other <u>specific anti-avoidance rules</u> will be reinforced.	I 131; WP 57
- <u>New information requirements</u> for investment income and tax shelters will be strengthened to help identify avoidance and evasion.	I 131-132; WP 57

2.F SALES TAX REFORM PROPOSALS

	Document and Pages
The current federal tax is badly flawed.	S 9-24 WP 14-17 MS 3, 8
A new federal sales tax -- a broad-based, multi-stage sales tax -- will replace the current system in the second stage of tax reform.	S 1,25 WP 59 MS 3, 8-9
The multi-stage tax is a form of value-added tax collected from businesses, in stages, as goods are produced, distributed and sold.	S 29-34 WP 59 MS 9
Businesses would calculate their tax by adding up tax payable for a given reporting period and receiving a credit for any tax paid on their purchases.	S 29 WP 59-60
The multi-stage tax offers a number of important advantages over the present federal sales tax. It enables a fairer distribution of tax burden on individuals and families; is applied uniformly; completely removes tax on business inputs; does not favour imports; removes the hidden tax on Canadians exports; treats firms and sectors more fairly; and makes compliance easier and less costly.	S 34-46 WP 60-63 MS 8-9
A multi-stage tax is also preferable to a retail sales tax.	S 25-28
The rate of the new tax depends on which goods and services are included in the tax base.	WP 63-67 MS 9

	Document and Pages
The best way to make the sales tax fair is a refundable sales tax credit that provides direct and timely compensation to those who need it most. The new sales tax will be integrated with the personal income tax by substantially enhancing the existing refundable sales tax credit and extending it to many more families.	S 43-46 WP 64,66 MS 8-9
Detailed explanations of how the multi-stage tax will operate -- including who will be subject to the tax, how it will be calculated and when it will be payable -- are presented in the Annex to the Sales Tax paper.	S 61-159
Three variants of a multi-stage sales tax are being considered.	S 47-58 WP 67 MS 9
A National Sales Tax would combine the existing federal and provincial sales taxes into one national system.	S 47-54 WP 67,68 MS 9
- the National Sales Tax would include an enriched refundable sales tax credit.	WP 68 S 51
- the tax rate would vary among provinces.	WP 67 S 48
- tax would apply on a common federal-provincial base.	WP 67 S 48
- exemptions would be possible.	WP 67
- tax would be based on sales invoices.	WP 67 S 50

	Document and Pages
- a national system could accommodate <u>provinces choosing not to participate</u>.	S 50
- <u>administration</u> would be consolidated resulting in reduced paperburden for the taxpayer and administrative savings for both levels of government.	S 51
- <u>discussions</u> with provinces will be pursued.	WP 68,81 S 59
If consensus with the provinces on a national system cannot be achieved, the government will replace the current federal sales tax with <u>a federal-only</u> multi-stage tax.	S 54-58 WP 68-70 MS 9
A <u>Goods and Services Tax</u>, which would operate at the federal level only, would apply to virtually all goods and services. No invoices would be necessary.	S 55-57 WP 68 MS 9
- tax liability could be calculated using information from <u>books of account</u>.	S 55 WP 69
- a Goods and Services Tax could operate <u>in parallel with provincial retail sales tax systems</u>.	S 55 WP 69
- a Goods and Services Tax would be accompanied by an <u>enriched refundable sales tax credit</u>.	S 55 WP 69
- small businesses would be compensated for the costs of compliance.	S 55

	Document and Pages
A Value-Added Tax, which would also operate only at the federal level, would require invoices but would provide greater flexibility to exempt some products and services from tax.	S 57-58 WP 69-70 MS 9
- because the tax has a more selective base, businesses would need to substantiate claims for input credits by invoices showing the tax charged.	S 57 WP 69
- a Value-Added Tax would be accompanied by a refundable sales tax credit, but the extent of the credit would depend on how broad the base is.	S 57 WP 69
- to the extent that small businesses were exempted from tax, there would be no need to compensate them for collection.	S 57
- a federal VAT applied to a less-than-comprehensive base would require a higher rate of tax to achieve given revenue objectives.	S 57
Interim Changes to the Current Federal Sales Tax	S 151-159 I 31,33
Until a new federal sales tax can be put in place, changes are being made to the current sales tax to correct serious defects, stem the loss of revenue and, together with corporate tax increases, provide additional revenue to help fund personal income tax cuts.	WP 58-59 MS 10
To ensure that low-income Canadians are protected, the existing refundable federal sales tax credit is being increased.	WP 58 MS 10

	Document and Pages
2.G IMPLEMENTATION SCHEDULE	
In general, personal and corporate income tax changes will take effect in the 1988 taxation year. It is intended that Ways and Means Motions be introduced in Parliament by the end of 1987.	WP 81 I 133 MS 3
Sales tax reform will be implemented in stage two. Federal and provincial finance ministers will meet in the fall to explore the opportunity for a National Sales Tax.	WP 81 MS 9
The Standing Committee on Finance, Trade and Economic Affairs will review the income tax reform proposals and provide a forum for public discussion.	WP 81

	Document and Pages
2.H TAX REFORM IMPACTS	I 31-67
By shifting more of the tax burden from individuals to corporations, and by lowering rates and removing preferences, the reforms make fundamental changes in who pays and how much.	I 31, 32 MS 3
Impacts on Households	I 33-42 WP 36-42
Income taxes will be reduced for some 8.9 million households, over 80 per cent of all households, by an average of $475.	I 35 WP 37 MS 2-4
About 850,000 lower-income Canadians will have their tax reduced to zero or receive refunds.	I 19,41 WP 41 MS 4
Taxes paid by persons in similar circumstances will vary less after tax reform.	I 17, 38-39 WP 41 MS 6
Net personal income tax revenues will be reduced by about $11 billion over the next five years.	I 31 MS 3, 10
Personal income taxes will be lower for all ranges of income.	WP 37 MS 3
Income taxes will be increased for some 1.5 million households by an average of $665.	I 35 WP 38 MS 6

	Document and Pages
Income taxes will be cut for over 1.2 million of Canada's 1.4 million <u>elderly households</u> (at least one elderly person aged 65 and over).	I 38 WP 39 MS 4
<u>Different sources of income</u>: Those who earn their income mostly from salary and wages will pay less tax while those whose income comes mainly from investments, or from self-employment will pay more.	I 39,41 WP 41 MS 6
Tax reform makes the tax system <u>more progressive</u>.	WP 39 MS 4
Tables show the impact of personal tax reform on <u>typical taxfilers with no special deductions</u>.	I 51-56
<u>Specific examples</u> show the impact of tax reform on <u>individuals with varying types of income and deductions</u>.	I 56-65
<u>Regional Balance</u>	
<u>All regions benefit</u> from tax reform, but less economically advantaged regions gain more.	WP 42-43, 45-46
<u>Impact on Corporations</u>	I 42-48
<u>Corporate taxes will grow</u> as a share of total tax revenues, increasing by about $5 billion over the next five years.	I 31 WP 50-51 MS 2, 3, 6

	Document and Pages
All sections will contribute. The average tax rate across all sectors will increase from 18.7 per cent to 19.6 per cent. The amount of income on which profitable corporations must pay tax will increase from the current 72 per cent of financial statement income to over 84 per cent.	I 42 WP 50,53 MS 6-7
The number of profitable corporations not paying tax will be reduced.	I 44-45 WP 53 MS 2, 6

Impact on Sectors

Base-broadening will have a greater impact on sectors which have a relatively light tax load and in which there are relatively more profitable firms that pay no tax, such as banks, trust and loan, real estate and insurance companies.	I 42-43 WP 53 MS 6
The variation in average tax rates paid by firms in different sectors will be reduced.	I 42-44 WP 54-55
The small business tax burden will not be altered by tax reform though it increases for large corporations.	I 45 WP 55 MS 6
The incentives to invest in different sectors are more uniform after tax reform.	I 45-48 MS 6

Impact on Provinces

As income tax reform becomes fully implemented, provincial revenues in total will increase. Transition measures will help offset the impact of tax reform on provinces in the first year.	I 48-50 WP 77-79

	Document and Pages
General Economic Impacts of Tax Reform	E 3-12 WP 71-73 MS 10-11
Personal income tax reform will improve the medium- and longer-term economic prospects of the economy by increasing the incentives for Canadians to enter the labour force, to work productively and to save.	E 3-5 WP 71 MS 5
Corporate income tax reform will improve economic prospects by reducing the differences in tax burdens across industries, reducing the tax disadvantage of labour intensive industries, and lowering the tax incentive for debt as opposed to equity financing.	E 5-7 WP 72 MS 6-7
Sales tax reform's main impact will be to reduce tax-induced distortions in the economy. This will benefit Canada's industrial competitiveness and the incentives for Canadian industry to invest.	E 7-12 WP 72-73 MS 8
Economic prospects are reinforced by tax reform. Based on stage one of tax reform (personal and corporate reform), GDP growth over the medium term should average about 3 per cent and the unemployment rate, inflation rate and interest rates should decline.	E 24-26 MS 10-11
General Fiscal Impacts of Tax Reform	E 27-49 WP 73-77 MS 10-11
The total impact of tax reform and related measures on the deficit will be negligible through 1991-92.	WP 73 MS 10

	Document and Pages
Personal income tax changes will reduce PIT revenues.	WP 74 MS 4, 10
Corporate tax changes, including anti-avoidance measures, will increase CIT revenues	WP 74 MS 6, 10
In stage one of reform, the total direct revenue impacts of personal and corporate tax measures, in the absence of other measures, would result in an increase in the deficit.	I 31 E 29 WP 74 MS 9
The expected net revenue from the interim changes to the current sales tax will be $1.1 billion in 1988-89 and $1.2 billion in 1989-90.	WP 58 MS 10
The interim changes to the existing federal sales tax as well as measures to improve cash management will increase revenues and ensure a negligible fiscal impact on the deficit.	I 31,33 E 31-32 WP 58-59 MS 10
Tax reform measures will help the government meet its four principles of fiscal responsibility over the medium term.	E 35-46 WP 73-74 MS 9
- the growth of the debt-to-GNP ratio will slow continuously and stabilize by 1991-92.	E 39
- the deficit will continue to decline over the medium term, reaching $23.5 billion by 1991-92.	E 41
- financial requirements will decline to $12.7 billion by 1991-92, well below the high of 29.8 billion in 1984-85.	E 43
- Expenditure control accounts for the majority of deficit reduction over the medium term.	E 45

SOME MAJOR CHANGES IN TAXATION THROUGH THE YEARS

3. SOME MAJOR CHANGES IN TAXATION THROUGH THE YEARS

Prior to 1914 federal taxes in Canada were limited mainly to commodity taxes - primarily on goods such as tobacco and alcohol. Heavy demands for revenue during the 1914-1918 war resulted in the imposition of a number of taxes. Of these the most important were the Special War Revenue Act -- an excise tax -- passed in 1915 and the Income War Tax Act passed in 1917.

In 1920 the government introduced a <u>federal sales tax</u> - a 1 per cent multi-stage tax on most sales and importations of goods. Modified in 1924, it became a single stage, manufacturers' level tax with the rate increased to 6 per cent to compensate for the reduction in revenue.

Between the late 1940s and the early 1980s, the sales tax base was eroded by the removal of a number of categories of goods. To compensate, the rate was raised and it reached 12 per cent in 1967. Subsequent efforts to reform the sales tax, such as the inclusion of construction materials in 1963, did not prevent a continuing erosion of its base.

Frustrations with the existing <u>income tax system</u> led in the early 1960s to the establishment of a Royal Commission on taxation. The Carter Commission recommended sweeping changes to the income tax system. A somewhat less dramatic reform was presented in 1971 by the government, and came into force for January 1, 1972.

Some sources of income were added to the <u>personal income tax</u> base. They included old age security, family allowances, unemployment insurance and half of capital gains. New deductions appeared as well, such as deductions for child care expenses and moving expenses, the standard employment deduction, general averaging and income averaging annuities.

A similar process occurred for <u>corporate income tax</u>. New provisions included preferential small business and manufacturing tax rates, earned depletion allowances to replace depletion allowances in the resource sector and fast write-off provisions.

The following year <u>indexing</u> of personal exemptions and tax bracket thresholds was introduced. Since 1972, <u>special provisions have multiplied</u>. Exemptions, deductions and credits such as the two-year write-off for manufacturing and processing machinery and equipment, the investment tax credit, inventory allowances, registered home ownership savings plan provisions and the MURB and film provisions narrowed the tax base. Efforts were made to broaden the tax base by ending certain tax provisions and to lower rates. Marginal rates for middle and higher incomes were reduced in 1981. But on balance, new provisions did not lead to a significant increase in the tax base.

Date of Introduction of Some Special Provisions and Other Changes

1957 - First RRSP provisions

1971 - Tax Reform bill

1972 - Two-year write-off for manufacturing and processing equipment

1973 - Education deduction

1974 - $1,000 interest deduction
- Political contributions deduction
- Provincial mining taxes and royalties not deductible

1975 - Registered Home Ownership Savings Plan (RHOSP) provisions
- $1,000 pension deduction
- Investment tax credit

1976 - Tax write-offs for Multiple Unit Residential Buildings (MURBS)
- Tax write-offs for Canadian films

1977 - Inventory allowance
- Extension of rules for deductions by successor corporations
- Regional incentives as part of investment tax credit

1978 - Child tax credit
- Registered Retirement Income Fund (RRIF) provisions
- Revised definition of small business corporation

1980 - Small business development bond

1981 - Replacement of the income-averaging annuity and general averaging provisions by forward averaging provisions
- Limit on roll-overs of retiring allowances
- Reduction of the capital cost allowance
- New corporate distribution tax
- Dividends from term-prefered shares no longer exempt
- Changes to Deferred Profit Sharing Plan (DPSP) regulations

1982 - Indexing made subject to the "6&5" anti-inflation limits

1983 - Scientic Research Tax Credit (SRTC) provisions
- Refundable Investment Tax Credit
- Reduction of federal tax credit
- Dependant deduction frozen
- Introduction of Indexed Security Investment Plans (ISIPs)

1984 - Simplification of small business tax system

1985 - Expansion of refundable child tax credit / reduction of child tax exemption
- Lifetime capital gains exemption
- Modified indexing of tax system
- RHOSP ended

1986 - Prepayment of refundable Child Tax Credit
- Refundable Sales Tax Credit
- Phase one, corporate tax reform

1987 - Comprehensive tax reform

The government has taken a number of actions to improve the fairness of the tax system and curb opportunities for tax avoidance. A review of many of these actions can be found in The White Paper section "Incremental Reform 1985-1986:, pp. 19-21.

"T" IS FOR TAX

4. T IS FOR TAX

An unofficial glossary of terms used in tax matters

Terms to be found in the glossary:

A
accelerated depreciation
accrual-basis accounting
age tax credit
allowable business investment losses (ABIL)
annuity
at risk rules
average industrial wage
averaging
avoidance

B
business inputs

C
Canada Pension Plan (CPP)
Canadian exploration and development incentive plan (CEDIP)
capital cost allowance (CCA)
capital gain
capital gain inclusion rate
carrying charges
cascading
cash-basis accounting
charitable tax credit
child dependant tax credit
CIT
compliance strategy
consumer price index (CPI)
credit
customs

D
declining-balance
deduction
deferral
deferred profit sharing plan (DPSP)
depletion allowance
depreciation
direct tax
disability tax credit
dividend tax credit
duty

E earned depletion (see depletion allowance)
earned income
economic efficiency
education tax credit
effective tax rate
equity investment
equivalent-to-married
evasion
excise
exclusion
exemption

F family allowance
fast write-off
federal goods and services tax
federal value-added tax
financial statement income
fiscal policy
flow-through share incentive

G goods and services tax (see federal goods etc.)
gross revenue test
gross-up
guaranteed income supplement (GIS)

H household

I income averaging
income tax
index
indexation
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accelerated depreciation Allowing DEPRECIATION for tax purposes (CAPITAL COST ALLOWANCE) to be claimed faster than it is accounted for on financial statements.

accrual-basis accounting The standard practice of accounting for revenues and expenditures as they are earned or incurred rather than recording them on a CASH BASIS when payments are actually made or received.

age tax credit Under tax reform, replaces the age exemption for persons 65 years of age or older. The federal credit will be $550, transferable in whole or part to a taxpayer's spouse.

allowable business investment losses (ABIL) Half of the losses from sale of a share or debt of a SMALL BUSINESS are deductible from income. Under tax reform, the deductible portion will rise to two-thirds in 1988 and to three-quarters in 1990.

annuity A financial instrument providing for payment to the holder of a regular benefit for a specified number of years or for life. See also REGISTERED RETIREMENT INCOME FUND.

at risk rules These rules limit the amount of tax deductions and credits that may be flowed out to LIMITED PARTNERS to the amount of the investment that the limited partner has at risk. Under tax reform, these rules will be extended to cover resource expenditures incurred by a limited partnership.

average industrial wage Average weekly earnings for all employees in all industries (except agriculture, fisheries, religious organizations, domestics, and national defence), based on data provided by Statistics Canada.

averaging See INCOME AVERAGING

avoidance Maximizing the use of tax concessions, preferences, exclusions, exemptions, credits and tax planning opportunities of all kinds to reduce tax to the lowest possible level by legal means. Under tax reform, the scope for tax avoidance will be reduced by a general anti-avoidance rule. Compare with EVASION.

business inputs Contributions of labour, physical capital, raw materials and intermediate products at any stage in the production and distribution of goods and services.

Canada Pension Plan (CPP) A national, compulsory, earnings-related pension plan. Virtually all working Canadians aged 18 to 65 must contribute to the CPP or the parallel Quebec Pension Plan. Normally, retirement benefits start at age 65; commencing in 1987, actuarially adjusted benefits may be paid from age 60. Employers and employees contribute in equal amounts; the self-employed also contribute.

Benefits include retirement, disability (the benefit was improved in 1987), and survivor pensions, and orphan and death benefits. Since 1974 increases in benefits have been adjusted annually to reflect increases in the CONSUMER PRICE INDEX. Pension contributions are deductible; benefits are part of taxable income. The maximum monthly 1987 CPP retirement pension is $521.52.

Canadian Exploration and Development Incentive Program (CEDIP) Provides a yearly grant of a third of expenditures of not more than $10 million per qualified person (including corporations) on exploring for or developing oil and natural gas reserves.

capital cost allowance (CCA) A DEPRECIATION allowance for tax purposes deducted from income to write off the cost of capital assets over time. The CCA system is the statutory method for writing off depreciable assets in determining a taxpayer's income. Individual assets are assigned to one of 37 classes with specified rates ranging from 4 per cent to 100 per cent.

capital gain or loss The net gain or loss realized on the sale of assets, such as real estate, shares in a company, and bonds; the difference between the purchase price and the sale price of the asset is the capital gain or loss.

capital gain inclusion rate The proportion of net realized CAPITAL GAIN to be included in computing an individual's taxable income. Under tax reform, the inclusion rate rises from one-half to two-thirds in 1988, and to three-quarters in 1990.

carrying charges Deductible expenses incurred in the acquisition and maintenance of income-earning assets. Carrying charges include interest on money borrowed to earn income, safety deposit box fees, and investment counselling fees.

cascading The double-taxation effect of adding sales tax to the price of goods or services whose price already includes sales taxes levied on BUSINESS INPUTS at earlier stages of production or distribution. Cascading occurs with the federal MANUFACTURER'S SALES TAX.

cash-basis accounting An accounting method under which payments are taken into account when they are made or received rather than on an ACCRUAL BASIS.

charitable tax credit Under tax reform, replaces the federal deduction for charitable donations. The federal credit will be 17 per cent of donations up to $250 and 29 per cent of donations above that level, for donations made to a REGISTERED CHARITABLE ORGANIZATION, for gifts to the Crown, and for gifts of certified Canadian cultural property.

child dependant tax credit Under tax reform, replaces the child tax exemption. The credit will be $65 for each child under 18. This new credit is distinct from the REFUNDABLE CHILD TAX CREDIT introduced in 1978 to supplement the incomes of low-income and middle-income families with children.

CIT Corporate income tax. See INCOME TAX.

compliance strategy Measures to reduce TAX AVOIDANCE and make it easy for taxpayers to comply with tax requirements. The Canadian tax system basically depends on the taxfiler's self-assessment of income to determine tax payable and on voluntary compliance.

consumer price index (CPI) Published monthly by Statistics Canada, the CPI is the main measure used in Canada to record changes in the level of prices most people pay for the goods and services they buy. The CPI is based on a basket of goods and services purchased by the typical urban family. It comprises more than 400 items in seven major components: food, housing, clothing, transportation, health and personal care, recreation and reading and education, and tobacco products and alcoholic beverages. Partial or full INDEXATION of taxes and some SOCIAL TRANSFERS is based on the CPI.

credit An amount to be subtracted from personal or corporate income tax and therefore having the same value regardless of the taxpayer's MARGINAL TAX RATE. By contrast, a deduction or exemption is an amount subtracted from income to calculate taxable income; it provides a larger reduction of tax the higher the TAX BRACKET, owing to progressive tax rates. See also REFUNDABLE TAX CREDIT.

customs Charges of any kind levied on imports or exports; usually refers to DUTY payable on imports.

declining-balance See DEPRECIATION

deduction An amount subtracted from total income to arrive at taxable income. Tax deductions recognize expenses related to earning income and provide incentives to fulfil certain policy objectives, such as saving for retirement, investment, and adequate child care.

deferral A provision allowing the taxpayer to postpone the recognition of income and, therefore, the payment of tax. For example, payment of tax on income put aside for retirement as a contribution to the CPP, QPP, an RPP or an RRSP is deferred until the money is withdrawn as retirement income. The advantage of tax deferral in these instances is that income will likely be taxed at a lower rate since income usually declines after retirement.

deferred profit sharing plan (DPSP) An employer-sponsored vehicle to encourage profit sharing by deferring tax on contributions made by employers for the benefit of employees. Contributions are generally related to the level of profits. Appreciation of their value in the plan is not taxed; benefits are taxed when withdrawn. Benefits usually contribute to the retirement income of employees.

depletion allowance (earned depletion) An extra deduction from income of one third of mining and certain oil and gas exploration and development expenses. The 'earned depletion allowance', which provides a tax WRITE-OFF in excess of actual costs, will be phased out under tax reform, starting in July 1988.

depreciation An amount charged each year over the life of an asset to represent approximately the value of the asset that is used up in that year; that is, the amount the asset depreciates. Depreciation is employed because assets such as machinery, vehicles, and buildings have useful lives that extend over many years. Thus the full cost of purchase of these assets is not charged as an expense in the year the assets are acquired. Depreciation allowances for tax purposes, called CAPITAL COST ALLOWANCES, are deductible from income in calculating taxable income. In straight-line depreciation, the cost of an asset is divided by a set number of years and that amount is deducted each year. In declining-balance depreciation, which is the usual method used for tax purposes, a percentage of the undepreciated cost of an asset is deductible each year.

direct tax A tax such as personal or corporate income tax that is paid directly by the individual or firm subject to it. Retail sales tax, capital gains tax, and property tax are other examples of direct tax. Constitutionally, both the federal and provincial governments have power to levy direct taxes.

disability tax credit Under tax reform, replaces the special disability deduction. The credit will be $550. If not used by the disabled person, the unused portion of the credit is transferable to the spouse or supporting parent or grandparent. For eligibility, a physician must certify marked impairment of daily living activities that lasts or is expected to last at least 12 months in a row.

dividend tax credit A percentage of dividends received from Canadian corporations that is deductible from tax. The credit represents a notional allowance for taxes paid by the corporation before dividends are distributed. In calculating the credit, dividends are 'grossed-up' to represent corporate profits before tax and then included in the individual's taxable income. With the lowering of corporate income tax rates under tax reform, the GROSS-UP and dividend tax credit will be reduced.

duty Duty is most commonly used to refer to a levy on imports. See CUSTOMS.

earned depletion See DEPLETION ALLOWANCE.

earned income Income from employment or self-employment such as wages, salary, commissions, contracted services or the profits of unincorporated businesses, as distinct from income from investments, pension and savings plans, and government transfer programs.

economic efficiency A concept of using economic resources in the best way possible.

education tax credit Under tax reform, replaces the present $50 a month education deduction. The credit will be $10 a month for full-time students attending a designated educational institution. The combined education and TUITION credits are transferable up to $600 to a student's spouse or supporting parent or grandparent.

effective tax rate Tax paid expressed as a percentage of total income, in the case of personal and corporate income tax, or of price to the consumer, in the case of sales tax. For example, mark-ups at the wholesale and retail levels vary from product to product subject to manufacturer's sales tax and result in a wide diversity of effective rates. Effective tax rates for corporations can be average tax rates (federal taxes paid divided by income reported for financial statements of companies), or tax rates on new investments showing the incentive to invest in different sectors or assets. Compare with STATUTORY RATE.

equity investment An interest or ownership right in a property -- such as shares -- representing a portion of the property's money value in excess of claims or liens against it.

equivalent-to-married tax credit Under tax reform, replaces the equivalent-to-married exemption. A single member of a household with a dependant under 18 related by blood, marriage, or adoption, or a dependant 18 or over if a parent, grandparent, or infirm, who resides in the same establishment, will be able to claim a credit equal in value to the marriage credit of $850. A common example is the single parent who may claim equivalent-to-married credit for one dependent child.

evasion Using illegal methods to reduce tax payable. Compare with AVOIDANCE.

excise An indirect sales tax levied on the manufacturers of domestically made goods, and on importers on the DUTY-paid value of imported goods. The federal Excise Tax Act levies excise on domestic and imported spirits, beer, wine, tobacco products, jewellery, slot machines, playing cards, matches, airline tickets, snuff, and gasoline; exported goods are exempt.

exclusion A portion of personal or corporate income designated as non-taxable. Examples of tax exclusions are gifts and bequests, lottery winnings, capital gains on a principal residence, first $500 of bursary income, and a percentage of capital gains.

exemption An amount subtracted from total income to arrive at taxable income. Tax exemptions recognize minimum expenditures required for basic personal needs; they include the basic personal exemption, age exemption, and child dependant exemption. All personal exemptions are converted to tax credits under tax reform.

family allowance A monthly federal payment intended to supplement the income of all families caring for children under age 18, usually paid to the mother. Family allowances were introduced in 1944. Quebec and Alberta have different payment configurations from the rest of the country. The family allowance is INDEXED annually to CPI minus 3 and in 1987 is $31.93 per child monthly. Family allowances are included in taxable income.

fast write-off See ACCELERATED DEPRECIATION.

federal goods and services tax A comprehensive MULTI-STAGE SALES TAX to be considered as one of three options for the second stage of tax reform. Tax is calculated on taxable sales over a period and a credit given for taxable purchases. Calculations are based on books of account.

federal value-added tax A federal MULTI-STAGE SALES TAX to be considered as one of three options for the second stage of tax reform. Tax is calculated on the basis of sales invoices and credits are allowed for tax paid for purchased inputs as shown on invoices.

financial statement income Income of a business as reported on a financial statement and calculated according to generally accepted accounting principles. Often financial statement income is higher than income for tax purposes because tax incentives are not taken into account.

fiscal policy The use of government revenues and expenditures and the balance between them to influence the general course and growth of economic activity.

flow-through share incentive Mining and oil and gas companies are allowed to flow resource expenses through to purchasers of flow-through shares. The purchase of such shares gives the shareholder a specified reduction in taxable income. This is particularly useful for mining and resource companies which are unable to take advantage of exploration and development expense deductions because they lack taxable income.

gross revenue test Under tax reform, a test to distinguish between full-time and part-time farmers. For those taxpayers who meet the farm PROFIT TEST, to be considered a full-time farmer gross revenue from farming must be greater than the taxpayer's total net income from all other sources in at least three of the most recent seven years. There are no limits on the amount of farm losses (on an ACCRUAL BASIS) that can be charged against non-farm income in the case of a full-time farmer. There is a $15,000 limit on farm losses deductible from non-farm income if a taxpayer is a qualifying farmer but not a full-time farmer.

gross-up Term given to the requirement to increase (gross up) for tax purposes the amount of dividends received by an individual from Canadian corporations by a specified percentage. See also DIVIDEND TAX CREDIT.

guaranteed income supplement (GIS) The GIS provides income-tested benefits to persons age 65 and over. It is fully indexed quarterly to the CONSUMER PRICE INDEX. Maximum monthly benefits in July 1987 will be $235.03 each for married pensioners and $360.87 for single pensioners.

household For the measurement of tax impact, households are considered to be unattached single individuals living alone, married couples and their dependent children, and single individuals with dependants for whom they claim full or partial deductions. The household concept is used to take account of the fact that tax increases for one earner in a household can be more than offset by decreases for another.

income averaging Methods of averaging income over a number of years for tax purposes have been available to Canadians with income that fluctuates significantly. Under block averaging, farmers and fishermen are allowed to spread income over five years in equal fifths. Under forward averaging, taxpayers may attribute part of their income to future years; they qualify for refunds consisting of the difference between the tax paid at the high marginal rate on the forwarded block in the initial year and the tax owing at a lower marginal rate in a later year of lower income. Block and forward averaging will be eliminated under tax reform because the new system of lower rates and only three TAX BRACKETS makes the effect of fluctuations in income less burdensome to the taxpayer.

income tax A levy on TAXABLE INCOME of individuals and corporations at the federal level. Under the Constitution, both the federal and provincial governments may impose income tax.

index An index, such as the CONSUMER PRICE INDEX (CPI), shows average values and their change over time from a base period. The CPI, with 1981 equal to 100, reached 137 in April 1987, meaning that the average price of consumer goods and services rose 37 per cent in that period. See also INDEXATION.

indexation The adjustment of tax exemptions, credits, and rate brackets and of SOCIAL TRANSFERS to reflect inflation. Under tax reform, the tax credits and rate brackets will continue to be indexed to the annual increase in the CONSUMER PRICE INDEX in excess of 3 per cent -- commonly known as CPI minus 3. The OLD AGE SECURITY pension and GUARANTEED INCOME SUPPLEMENT are fully indexed quarterly to CPI increases.

indirect tax A tax, such as the federal MANUFACTURER'S SALES TAX, or CUSTOMS and EXCISE DUTY, that is not levied on the person or firm that ultimately pays it in the price of goods and services but on an intermediary such as a manufacturer or importer. The federal government, with exclusive power to levy indirect taxes, raised nearly all its revenue in this way until the First World War.

infirm dependant tax credit Under tax reform, replaces personal exemption for infirm dependants age 18 and over. The credit will be $250. To qualify, a dependant must be financially dependent by reason of mental or physical infirmity.

investment incentives Any spending or tax measure designed to encourage firms to make certain investments. The INVESTMENT TAX CREDIT and various CAPITAL COST ALLOWANCES involving ACCELERATED DEPRECIATION are examples.

investment tax credit A credit against income tax expressed as a percentage of certain expenditures to encourage investment. A portion of the credit may be REFUNDABLE if the taxpayer does not have sufficient tax to take full advantage of the credit.

lifetime exemption The cumulative amount of capital gains that are exempt from taxation over the lifetime of an individual under the special exemption introduced in the 1985 budget. Under tax reform, the lifetime exemption is $500,000 for qualifying farm property and shares of SMALL BUSINESS corporations, and $100,000 for other property.

limited partnership A type of partnership in which certain partners -- 'limited partners' -- have liability limited to the amount they contributed as capital to the partnership, compared with general partners, who have unlimited liability.

manufacturer's sales tax A federal INDIRECT sales tax imposed since 1924, with occasional modifications, on sales at the manufacturer's level in the case of domestic products and on the importer in the case of imports. It is to be replaced under the second stage of tax reform by a form of MULTI-STAGE SALES TAX.

marginal tax rate Rate levied on a taxpayer's last dollar of income, rising in three brackets under tax reform: 17 per cent up to $27,500, 26 per cent from $27,500 to $55,000, and 29 per cent above $55,000. Taking provincial taxes into account the top marginal federal-provincial personal income tax rate now averages about 55 per cent; after reform it will average about 45 per cent. See also TAX BRACKET.

multiple-unit residential building (MURB) A type of housing complex, containing no more than 20 per cent commercial space, in which investment was encouraged by allowing individual investors to deduct CAPITAL COST ALLOWANCE from income to create a loss that can be charged against other income. The MURB incentive is being phased out. See also TAX SHELTER.

multi-stage sales tax Generic term to describe the various forms of VALUE-ADDED TAX that are under consideration to replace the existing federal sales tax, known as the MANUFACTURER'S SALES TAX. The multi-stage tax would be levied on sales at each stage when goods or services pass from one firm to another in the production and distribution network, and a credit would be given to businesses for tax paid on purchased inputs that had already been taxed.

national sales tax A joint federal-provincial MULTI-STAGE SALES TAX system to be considered for the second stage of tax reform.

negative income tax Income-support payments to lower-income individuals based on their income tax return; delivered in the form of tax refunds.

net income Income for purposes of calculating personal and corporate income taxes after allowance for some deductions. In determining TAXABLE INCOME, other exemptions and deductions are subtracted from net income. Net income is the measure used to determine eligibility for income-tested benefits such as the REFUNDABLE CHILD TAX CREDIT and the SALES TAX CREDIT.

neutral taxation Taxation that, by taxing various goods and services at similar rates, promotes ECONOMIC EFFICIENCY and causes minimal distortion of economic activity.

non-resident withholding tax See WITHHOLDING TAX.

old age security (OAS) The OAS pension, or universal old age pension introduced in 1951, is paid monthly to all persons age 65 or over, regardless of income, who meet Canadian residence requirements. The OAS pension is fully indexed quarterly to the CONSUMER PRICE INDEX. Its July 1987 level will be $303.64 a month. Benefits are included in income.

pension benefits See: CANADA PENSION PLAN, DEFERRED PROFIT SHARING PLAN, GUARANTEED INCOME SUPPLEMENT, OLD AGE SECURITY, QUEBEC PENSION PLAN, REGISTERED PENSION PLAN, REGISTERED RETIREMENT INCOME FUND, and REGISTERED RETIREMENT SAVINGS PLAN. In conjunction with recent improvements in the CPP and tax assistance to retirement savings, strengthened minimum standards for private pension plans under federal jurisdiction were introduced in 1987. These included provisions for early vesting, improved portability, minimum requirements for employer contributions, refunding provisions, eligibility for all full-time workers and qualifying part-time workers, early-retirement option, a number of reforms of particular interest to women (concerning survivor benefits, benefit-splitting on marriage breakdown, and equal pensions to men and women retiring in the same circumstances), inflation protection, and information disclosure and employee participation.

pension income tax credit Under tax reform, replaces the $1,000 pension income deduction. The credit will be 17 per cent of eligible pension income up to $1,000 for a maximum credit of $170. The unused portion is transferable to a taxpayer's spouse.

personal exemptions The system of personal exemptions has developed as a means of recognizing the differing ability of different family structures to pay tax. Personal exemptions will be converted into PERSONAL TAX CREDITS under tax reform.

personal tax credits The personal exemptions converted into TAX CREDITS under tax reform are (with their new value as a deduction from tax in brackets): basic personal ($1,020), married ($850), EQUIVALENT-TO-MARRIED ($850), CHILD DEPENDANT and other dependants under 18 ($65), INFIRM dependants age 18 and over ($250), AGE 65 and over ($550), DISABILITY ($550).

PIT Personal income tax. See INCOME TAX.

preference Any kind of tax advantage for specified types of income, assets, or groups of taxpayers. Examples of tax preferences include: small business profits, capital gains, dividends of Canadian corporations.

profit test Starting in 1992 under tax reform, in order to qualify as a part-time or full-time farmer for tax purposes, a taxpayer must meet the profit test requirement that the farm has earned at least $1 of net farm income in at least three of the most recent seven years. This allows the taxpayer to claim at least some farm loss against non-farm income. To be considered a full-time farmer the taxpayer must also pass the GROSS REVENUE TEST.

progressive taxation The average rate of tax increases as the level of income increases for taxpayers in similar family situations.

provincial sales taxes All provinces have sales taxes on motor fuel (except Saskatchewan) and tobacco; all but Alberta have a RETAIL SALES TAX.

put in use rule A rule providing that CAPITAL COST ALLOWANCE and any associated INVESTMENT TAX CREDITS may not be claimed until the year in which the relevant asset is put in use. Under tax reform, such a rule will come into effect in 1990.

Quebec Pension Plan (QPP) Parallel plan to the CANADA PENSION PLAN, with portability between the two plans assured for workers moving into or out of Quebec.

refundable child tax credit A supplement to the income of low-income and middle-income families with children, introduced in 1978. Credits will be reduced by $5 for every $100 of family net income in excess of $23,760 in 1987. For lower-income families, the amount by which the child tax credit exceeds tax payable is shown on a tax return and is refunded by the government. The full credit is $489 per child in 1987.

refundable sales tax credit This credit is designed to offset the regressive effect of sales taxes, which take a larger proportion of the income of low earners than of high earners. Under tax reform it will be raised from $50 to $70 for adults and from $25 to $35 for dependent children under 18, payable in full for family net income up to $16,000. Credits will be reduced by 5 per cent of family net income in excess of $16,000.

refundable tax credit A TAX CREDIT is refundable if all or a portion of the amount by which the credit exceeds tax payable will be refunded in cash by the government. Refundable tax credits are a form of NEGATIVE INCOME TAX intended to provide income support to those who need it. The completed tax return serves as an income test to demonstrate need. Some corporate tax credits are also refundable in order to encourage investment.

registered charitable organization A charitable organization registered by the Department of National Revenue. Such charitable organizations are exempt from income tax and may issue receipts for donations entitling the donor to a tax deduction or, under tax reform, a CHARITABLE TAX CREDIT. There are four recognized charitable purposes for registration: relief of poverty, advancement of education, advancement of religion, and other purposes widely recognized as beneficial to the community.

registered pension plan (RPP) An employer-sponsored plan which qualifies for preferred tax treatment designed to encourage the provision of retirement income for employees. Employer and employee contributions to RPPs are deductible from the employer's and employee's income for tax purposes up to prescribed limits. Funds in the plan accumulate free of tax. There are two types of RPP: defined-benefit plans, in which contributions are designed to produce a certain level of pension at retirement, and money-purchase plans, in which the amount of contributions and their appreciation in the RPP determines the eventual pension.

registered retirement income fund (RRIF) One of the options, along with the purchase of an ANNUITY, under which RRSP funds can be used to provide retirement income. After RRSP holdings are transferred to one or more RRIFs, they continue to appreciate free of tax. A minimum amount must be withdrawn each year, 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 spouse. For example, at age 75 an RRIF holder must withdraw at least one-fifteenth of the amount in the fund.

registered retirement savings plan (RRSP) A plan through which an individual can save for retirement on a tax-assisted basis. Contributions by an individual to an RRSP are deductible up to a percentage of earned income, subject to a dollar maximum. The appreciation of funds in an RRSP is free of tax. Withdrawals are taxed as income. To provide retirement income, RRSPs can be converted into annuities or REGISTERED RETIREMENT INCOME FUNDS (RRIFs). This must be done before the end of the year in which the plan-holder reaches age 71.

regressive taxation Taxation that is more burdensome for low-income taxpayers than for those with high incomes. A measure of regressiveness is the TAX BURDEN as a percentage of income, or EFFECTIVE TAX RATE.

resource allowance An allowance of 25 per cent of resource profits, deductible from income, to recognize that provincial royalties and mining taxes levied on oil and gas and mining income cannot be deducted for federal income tax purposes.

retail sales tax A DIRECT TAX on the selling price of most goods sold for final consumption, levied at varying rates in all provinces except Alberta. The tax is collected by vendors from the consumer and remitted to provincial authorities. Exemption lists vary from province to province but some exemptions from retail sales tax are common to all: certain categories of food, prescription drugs, medical appliances, and farm machinery and equipment.

Royal Commission on Taxation Appointed under the chairmanship of Kenneth Carter by the government of Rt. Hon. John G. Diefenbaker in 1962, reported to the government of Rt. Hon. Lester B. Pearson in 1967. The Carter recommendations were reflected to some extent in tax reform proposed in a 1969 White Paper. Carter said that "Preserving and developing the system by scrupulously fair taxes must override all other objectives." The Commission urged broadening the TAX BASE under its "a buck is a buck" philosophy.

sales tax A TAX levied on the sale price of goods or services. It can be a multi-stage tax levied at the various points where goods and services change hands in the chain of production and distribution, with credits given to businesses for tax paid on inputs. The three options set out in the White Paper -- a NATIONAL SALES TAX, a FEDERAL GOODS and SERVICES TAX, and a FEDERAL VALUE-ADDED TAX -- are all MULTI-STAGE SALES TAXES; all are variations of the VALUE-ADDED concept.

small business For purposes of the small business deduction, a small business is defined as a Canadian-controlled private corporation (CCPC). The special small business tax rate applies to the first $200,000 of active business income (that is, other than investment or personal-services income) from a business carried on in Canada. For the purposes of some other tax measures a small business is defined as a CCPC using substantially all of its assets in an active business carried on primarily in Canada. Although these definitions include a few large privately-held corporations, about 95 per cent of the $2 billion a year in tax preferences to CCPCs goes to firms with less than $5 million in assets. Under tax reform, the first $200,000 in taxable income of CCPCs will be eligible for a federal tax rate of 12 per cent compared to a pre-reform rate of 15 per cent. (The regular corporate rate under tax reform will be 28 per cent, down from the existing rate of 36 per cent.)

social transfers Redistribution of income to meet social needs can be attained through expenditure programs such as OLD AGE SECURITY, FAMILY ALLOWANCES, unemployment insurance, GUARANTEED INCOME SUPPLEMENT, and the Canada Assistance Plan, or through the tax system with measures such as the REFUNDABLE CHILD TAX CREDIT and the SALES TAX CREDIT. The tax reform program emphasizes the complementary character of such social transfers effected through either the expenditure or tax system.

soft costs Costs relating to construction of a building that do not directly give rise to a tangible asset such as bricks and mortar. Soft costs include interest expenses and property taxes during the construction period.

source deduction An amount withheld from a payment and remitted to government on account of the payee's tax liability. An example of a source deduction is the personal income tax withheld by employers from wages they pay employees.

statutory tax rate The tax rate set by legislation, or statute -- the Income Tax Act in the case of personal and corporate income tax. Compare with EFFECTIVE TAX RATE.

straight-line See DEPRECIATION

surtax A tax expressed as a percentage of tax otherwise payable. The present federal surtax to reduce the deficit is calculated as three per cent of federal personal and corporate income tax payable.

tariff A charge imposed on commercial importations either at a specified rate for a particular quantity or more usually as a percentage of value, or ad valorem rate.

tax A payment that individuals and firms are required by law to make to government.

tax assistance Tax concessions to assist social or economic purposes, such as saving for retirement or investment.

tax avoidance See AVOIDANCE

tax base The foundation of a tax structure, encompassing all the money values upon which tax rates are applied: taxable income in the case of personal and corporate income tax, the prices of taxed goods and services in the case of sales tax, the assessed value of local real estate in the case of municipal property taxes.

tax bracket The MARGINAL TAX RATE that applies to a particular range of taxable income. There are ten federal tax brackets at present:

Taxable Income (dollars)	Marginal Tax Rate (per cent)
1,318 or less	6
1,319 to 2,638	16
2,639 to 5,278	17
5,279 to 7,917	18
7,918 to 13,196	19
13,197 to 18,475	20
18,476 to 23,754	23
23,755 to 36,951	25
36,952 to 63,346	30
63,347 and over	34

There will be three federal tax brackets under tax reform:

Taxable Income (dollars)	Marginal Tax Rate (per cent)
27,500 or less	17
27,501 to 55,000	26
55,001 and over	29

tax burden The amount and distribution of personal, corporate and sales taxes effectively borne by individual taxpayers and various groups of taxpayers. Tax reform is designed to bring about a fairer sharing of the tax burden.

tax collection agreements The federal government administers and collects personal and corporate income taxes for most provinces under tax collection agreements with them. Quebec collects its own personal income tax; Quebec, Ontario, and Alberta collect their own corporation tax.

tax credit See CREDIT.

tax deduction See DEDUCTION.

tax deferral See DEFERRAL.

tax evasion See EVASION.

tax exclusion See EXCLUSION.

tax exemption See EXEMPTION.

tax expenditure Government spending undertaken by way of forgone tax revenues, such as tax exemptions, deductions, deferrals, credits, and the like, rather than by way of grants. Examples of tax expenditure include tax deductions for charitable giving, tax assistance to saving for retirement, and tax incentives to invest in research and development.

taxfiler Everyone who files a tax return.

tax preference See PREFERENCE.

tax shelter Any arrangement that enables a taxpayer to reduce or defer tax liability, by way of specific incentives such as those to encourage research and development or the Canadian film industry.

taxable income Income subject to tax after subtraction of all exemptions, deductions, allowances, and expenses.

transferable tax credit Under tax reform, the unused portion of a number of non-refundable tax credits will be transferable for deduction from the tax payable by other specified taxpayers. Thus the AGE TAX

CREDIT and the PENSION INCOME TAX CREDIT will be transferable to a spouse. The DISABILITY TAX CREDIT and the TUITION and EDUCATION TAX CREDIT (maximum $600) will be transferable to a spouse or supporting parent or grandparent.

tuition tax credit Under tax reform, replaces the deduction for tuition fees. The credit will be 17 per cent of tuition fees paid in a calendar year. The combined EDUCATION and tuition credits are transferable up to $600 to a student's spouse or supporting parent or grandparent.

unemployment insurance premiums The premiums paid by employers and employees to support unemployment insurance benefits to workers who lose their jobs are deductible from income for tax purposes. Benefits are taxable. Under tax reform, employers will continue to deduct their share of premiums from income, while employees will receive a tax credit of 17 per cent of the value of their premiums.

value-added tax (VAT) A sales tax imposed on the price of goods and services as they pass from firm to firm and to the final consumer in the network of production and distribution. Each firm charges VAT on its sales but subtracts from its tax liabilities the VAT paid on its purchases, thereby paying tax only on the value added. The full cumulative amount of the tax is passed to the eventual consumer. VAT is part of the tax regimes of the countries of the European Economic Community and a number of other countries.

withholding tables Schedules provided regularly by Revenue Canada that inform employers of the amount of SOURCE DEDUCTIONS to be withheld and forwarded to the government.

withholding tax A federal tax on interest and dividend payments, pensions, royalties, and other payments to non-residents.

write-off A deduction from income recognizing the diminishing value of a capital asset, such as a CAPITAL COST ALLOWANCE.

<u>**WHERE TO OBTAIN ADDITIONAL COPIES**</u>

5. ADDITIONAL DOCUMENTS

Copies of the complete Tax Reform 1987 package will be available from Revenue Canada, Taxation offices at the following addresses as of June 19, 1987:

Newfoundland

165 Duckworth St.
St. John's, Nfld.
A1C 5X6

Prince Edward Island

90 Richmond St.
Charlottetown, P.E.I.
C1A 8L3

Nova Scotia

1557 Hollis St.
Halifax, N.S.
B3J 2T5

60 Dorchester St.
Sidney, N.S.
B1P 6K3

New Brunswick

65 Canterbury St.
Saint John, N.B.
E2L 4H9

Quebec

165 Pointe-aux-Lièvres St. S.
Quebec, Que.
G1K 7L3

50 Couture St.
Sherbrooke, Que.
J1H 5L8

305 Dorchester Blvd. W.
Montreal, Que.
H2Z 1A6

Quebec

3131 St. Martin Blvd. W.
Laval, Que.
H7T 2A7

5245 Cousineau Blvd.
St. Hubert, Que.
J3Y 7Z7

11 Terminus St. E.
Rouyn, Quebec
J9X 3B5

Ontario

385 Princess St.
Kingston, Ont.
K7L 1C1

11 Station St.
Belleville, Ont.
K8N 2S3

36 Adelaide St. E.
Toronto, Ont.
M5C 1J7

32 Church St.
St. Catharines, Ont.
L2R 3B9

19 Lisgar St. S.
Sudbury, Ont.
P3E 3L5

Manitoba

391 York St.
Winnipeg, Man.
R3C 0P5

Saskatchewan

1955 Smith St.
Regina, Sask.
S4P 2N9

Alberta

220 4th Ave. S.E.
Calgary, Alta.
T2G 0L1

9820 107th St.
Edmonton, Alta.
T5K 1E8

British Columbia

277 Winnipeg St.
Penticton, B.C.
V2A 1N6

1166 Pender St. W.
Vancouver, B.C.
V6E 3H8

In Ottawa

Department of Finance
Distribution Centre
140 O'Connor St.
K1A 0G5

For bulk orders, please write the Department of Finance Distribution Centre, 140 O'Connor St., Ottawa K1A 0G5 or call (613) 995-2855.

FOR FURTHER INFORMATION

6. FOR FURTHER INFORMATION

The entire Tax Reform 1987 package will be available in major centres in Canada on release night, June 18.

Booklets for individual taxpayers outlining key dimensions of tax reform, as well as pamphlets highlighting changes to the personal income tax system, will be available in the days following release in major supermarkets and malls across the country. This material will also be available in post offices in smaller regional communities not served by major supermarkets or malls.

Beginning June 22, Canadians can ask questions about tax reform directly or request mailed information by calling toll-free telephone numbers which will be advertised in daily newspapers nationwide.