report to parliament

corporate tax measures review

march, 1974

interim report

Tax Measures Review Committee
Comité d'étude des mesures fiscales

CORPORATE TAX MEASURES REVIEW

An Interim Report to Parliament on the impact of the budget measures of May, 1972 providing accelerated capital cost allowances and reduced rates of corporate tax in the manufacturing and processing sector.

Prepared by the Tax Measures Review Committee representing:

The Department of Consumer and Corporate Affairs
The Department of Finance
The Department of Industry, Trade and Commerce
The Department of Regional Economic Expansion
Statistics Canada

Presented by Finance Minister John N. Turner

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SUMMARY

This interim report presents preliminary estimates of the economic effects of the corporate tax measures proposed in the budget speech of May, 1972. The measures consisted of a two-year capital cost allowance on machinery and equipment used in manufacturing and processing industries and reduced rates of corporate income tax for the manufacturing and processing sector.

In order to assess the expected effects of the tax measures, an in-depth survey of manufacturing and processing firms was undertaken. To organize the survey and prepare a report, a committee was formed of officials from the Departments of Consumer and Corporate Affairs, Finance, Industry, Trade and Commerce, and Regional Economic Expansion, and from Statistics Canada. Detailed questionnaires were sent to 1,088 manufacturing and processing firms, and interviews were requested with 250 of these companies. The companies interviewed were of varying size, but included most of Canada's largest manufacturing and processing companies.

One sample of 699 companies was selected at random by the Probability Proportional to Size (PPS) technique to provide a data base on which a quantitative assessment of the expected impact of the tax measures could be made. A further sample of 389 representative companies was selected to provide a broad range of opinion as to the effects of the measures within various industry sectors. The replies of all firms and the interview results were employed in a qualitative examination of the ways in which manufacturing and processing firms perceived the impact of the measures on their operations.

Of the 699 companies in the PPS sample, 514 companies or 73.5 per cent responded. These returns provided data on a total of 1,066 individual corporations, as the reports of parent firms covered the operations of their subsidiaries. An examination of various characteristics of the respondents such as net book value of fixed assets, employment, and domestic and export sales, confirmed that they comprised a cross-section of firms engaged in manufacturing and processing activities. More than 69 per cent of the respondents indicated that the tax measures were expected to have a significant favourable impact on their competitive position, with the effect expected to be particularly important beyond 1975. In addition, more than half of the firms reported that they expected the measures to have a significant effect in enabling their industry to exercise price restraint. Some 52.5 per cent of the companies expected to increase investment expenditures as a result of the tax measures, and 57 per cent expected increased employment as a result.

In quantitative terms, the respondents indicated that a total of $1.4 billion of new investment, 29,995 new jobs and $4 billion in increased sales were expected as a result of the tax measures over the period 1972–75. According to the respondents, a total of $265 million of this new investment and 5,117 of the 29,995 new jobs would otherwise have been placed in foreign countries, but as a result of the tax measures would now be realized in Canada. The planned increases in levels of activity were expected to peak in 1974, and to continue at significant, although slightly lower, levels in 1975.

More than half of the respondents expected no change in the percentage distribution of after tax earnings; the remainder were equally divided between those expecting to increase and those expecting to decrease distribution of earnings.

The questionnaire also asked for explanatory comments, which were used together with the interview results to provide a perspective as to why the tax measures would or would not affect each firm's operations. Of those companies which commented on the nature of the price restraint effect, 55 per cent stated that the measures would partially offset escalating costs; and 24 per cent indicated that investment resulting from the tax measures would reduce costs or moderate cost increases and thereby permit price reductions or temper increases. Of those companies

which reported that the tax measures would not permit a reduction of price or moderation of increases, the predominant reason given was that prices were determined by international supply and demand conditions or by the cost of materials.

Based on the sample results, an estimate was made of the direct impact of the tax measures on the total manufacturing and processing sector. It was estimated that a total of $2.3 billion in new investment would be generated in the manufacturing and processing sector as a whole over the period 1972–75. It was also estimated that more than 94,000 new jobs and $9.4 billion in sales would be generated in response to the measures over this period.

The overall effects on the Canadian economy were examined with the assistance of large-scale econometric modelling. These studies suggested that significant indirect and induced effects were likely to be generated, and that the total impact on the economy, therefore, would be larger than the direct effect on the manufacturing and processing sector alone. It was not possible, however, to measure the exact size of these effects with any great precision, both because of the world energy situation and because of certain technical and analytical difficulties associated with the use of these models in present circumstances of capacity and supply constraint in the economy.

Further examination of the effects of the tax measures will be conducted for the Committee's final report, which will be presented later in 1974.

From the results obtained from the survey conducted for this interim report it seems clear that the measures were expected to have a significant impact in improving the longer term competitive position of the manufacturing and processing sector. Manufacturing and processing firms expected the measures to help them to take advantage of current economic conditions, expand or improve their operations through an increase in investment, jobs and sales, and strengthen their position in relation to competitors abroad.

INTRODUCTION

In statements to the House of Commons on February 19 and May 29, 1973, Finance Minister Turner undertook to present to Members of Parliament a report on the effectiveness of certain fiscal measures which had been proposed in the budget of May, 1972 for the purpose of strengthening the position of Canadian manufacturing and processing industries. These measures consisted of:

(a) a two-year capital cost allowance on machinery and equipment used in manufacturing and processing; and

(b) reduced rates of corporate income tax for the manufacturing and processing sector.

The Minister of Finance proposed that a comprehensive assessment of the measures should be conducted. Information was to be gathered by a survey of more than 1,000 individual companies, and by in-depth interviews with a smaller number of companies. He indicated that an interim report would be tabled by April 1, 1974, in order to give Members an early opportunity "to begin to assess the results of these measures on the basis of facts and figures", and "to make constructive suggestions before the final report is submitted by the end of 1974." The present report is concerned with a preliminary appraisal and evaluation of the measures, in accord with the undertaking given by the Minister.

BACKGROUND TO THE MEASURES

When the corporate tax measures were proposed in May, 1972, the Canadian economy had experienced several quarters of reasonably strong growth, but was still operating at a level short of full capacity. Business investment had been rather sluggish in the preceding year, and the unemployment rate remained high. Superimposed on this mixed performance of the economy as a whole was a longer-term outlook for the manufacturing sector which gave some cause for concern. The *Economic Review* published by the Department of Finance shortly before the May, 1972 budget noted that

"... The manufacturing sector in the period up to 1966 was characterized by a strong growth of real investment and substantial new job creation and output growth. Productivity gains were considerable. In the period since 1966, real investment in manufacturing has not grown on average and the rate of new job creation has been substantially reduced."

The Review added that

"To sum up, the more rapid rate of growth of the economy in the last quarter of 1970 and through 1971 can be seen in a pickup in activity of the manufacturing sector, primarily as a consequence of the growing strength of domestic demand. Nonetheless, in the perspective of the past decade, recent changes in the level of activity in the manufacturing sector appear relatively low. Whereas in the period from 1961 to 1966 new job creation in manufacturing accounted for 26.6 per cent of total new employment, in the period after 1967 the manufacturing sector share of new jobs dropped to 5.5 per cent."

This apparent weakening in the relative position of the manufacturing sector threatened the ability of manufacturing industries to perform their key role in Canada's commercial and industrial development. The budget speech pointed out that

"The manufacturing sector is of crucial importance to our economy. We depend on it to provide a growing number of productive, interesting and well-paying jobs for Canadians in the urban centres where they want to live and work. We rely on it to keep us in the forefront of technological advances. It is important to the development of a balanced and stable economy, one that is not excessively exposed to the sharp swings that take place from time to time in demand abroad for raw materials. It is important, too, because of the support it provides to the other major sectors of the economy."

Other countries, in recognition of the importance of their manufacturing and processing industries, had already adopted a range of tax and other incentives to bolster this sector of their economies. For example, France had modified its tax legislation several times in recent years in order to encourage capital equipment acquisitions, assist mergers and develop industry generally. Japan had devised various tax incentives, such as special depreciation allowances on a wide range of machinery and equipment items and reduced rates of corporate tax for small and medium-size enterprises, and had directed its banking industry to stimulate manufacturing and processing industries. Industry in the Federal Republic of Germany benefited from fast write-offs designed to develop new products or manufacturing techniques. Other countries such as Australia, Brazil, Ireland and South Korea had also offered attractive tax and other incentives to encourage domestic production and export of manufactured goods and services.

To maintain the competitive position of its own industrial sector and to encourage new investment in the United States, the U.S. Congress approved tax legislation in December, 1971, under which U.S. exporters could obtain more favourable tax treatment on export operations if they established what were called Domestic International Sales Corporations (DISCs). By means of DISC, a company could defer indefinitely U.S. corporate income tax on up to one-half the profits earned on exports of goods and services. These deferred profits were to be reinvested in export-related assets to preserve the exemption. The DISC legislation permitted manufacturers to reduce prices or to increase expenditures on research and development or on plant and equipment in the United States.

At the same time, the United States had introduced two other tax measures designed to encourage domestic investment by industry. One was the Job Development Investment Credit, which provided a tax credit of up to 7 per cent on investment in machinery. The other measure was a modification of the depreciation system (referred to as the "Asset Depreciation Range" or ADR System), under which a taxpayer could assume that a depreciable asset had a 20-per-cent shorter life than its usual guideline life, thereby increasing the rate at which depreciation could be claimed for tax purposes.

The introduction of the DISC legislation, together with the other U.S. measures, placed Canadian industry at a serious competitive disadvantage. At the time, the basic Canadian federal tax rate before adjustment for provincial tax rates was 50 per cent. The basic U.S. federal tax rate was 48 per cent, but with the DISC legislation the effective U.S. federal tax rate could vary between 36 per cent and 25 per cent on the profits U.S. companies derived from exports. Since provincial and state taxes would roughly offset each other in a comparison, this left Canadian industry with an adverse tax spread of at least 14 percentage points. Adverse effects on the Canadian economy seemed likely to arise from increased competition from U.S. exports in Canadian and third-country markets, and from increased incentives to shift future investment from Canada to the United States. The advantages to U.S. manufacturers and processors were regarded by the Canadian government with particular concern because of the close commerical ties between the two countries.

THE TAX MEASURES

The corporate tax measures of May, 1972, constituted a substantial incentive to improve the competitive position of Canada's manufacturing and processing sector. Other important steps had, of course, been taken over the previous decade to contribute to this goal. The budgets of June 1961, April 1962, June 1963 and December 1970 all contained some form of incentives for manufacturing. The Canada-United States Automotive Products Agreement, better known as the auto pact, and the Defense Production Sharing Agreement, had increased demand for the products of various industries in the manufacturing sector and had promoted improved productivity in these industries. A more efficient, technologically-advanced secondary industry had also been an important government goal in general trade negotiations, in adjustment assistance to the manufacturing and processing sector, and in programs of assistance for industrial research and development.

Effective January 1, 1973, the corporate tax measures reduced the then prevailing tax rate on general Canadian manufacturing and processing income from 49 per cent to 40 per cent, and on small business manufacturing and processing income from 25 per cent to 20 per cent. Also, for manufacturing and processing machinery or equipment acquired between May 9, 1972 and December 31, 1974, a two-year capital cost write-off was provided in place of the general 20-per-cent rate on the declining balance which would otherwise have been applicable.

Legislation to implement the reduced rate of corporate taxation was introduced following adoption of a Ways and Means Motion by the House of Commons in June, 1972. Bill C-222, however, received only first reading prior to the dissolution of Parliament in September, 1972, and the corporate tax reductions could not be enacted at that time. Legislation was again introduced in the new Parliament in the spring of 1973, in the form of Bill C-192. The bill was passed by the House of Commons on July 4, 1973, and received Royal Assent on July 27, 1973. The tax reductions were made effective as of January 1, 1973, the date originally proposed for their implementation. An Order-in-Council was passed on August 29, 1973, giving effect to amendments to the Income Tax Regulations defining manufacturing and processing profits which would be eligible for the reduced rates of corporate income tax.

The amended regulations outlining the accelerated capital cost allowance were authorized separately by Order-in-Council on July 31, 1973.

REPORTING AND REVIEW PROCEDURE

TAX MEASURES SURVEY

In order to assess the effects of the tax measures, information was obtained on the impact on individual manufacturing and processing companies by means of a survey of a large number of firms in the manufacturing and processing sector. A committee was formed of officials from the Departments of Consumer and Corporate Affairs, Finance, Industry, Trade and Commerce and Regional Economic Expansion and from Statistics Canada in order to undertake such a survey and to assess the results.

To obtain an appropriate sample for quantitative estimates of the impact of the tax measures on the manufacturing and processing sector, a large number of companies was selected at random by the sampling method known as the Probability Proportional to Size (PPS) technique. Each of the Canadian manufacturing and processing corporations which filed income tax returns in 1970 was assigned a weighting index constructed from a composite of sales, assets, equity, profits and taxable income. This weight was incorporated into the sampling procedure so that the probability of selecting a particular corporation was proportional to the weighted measure of its size and, therefore, proportional to the potential impact of its operations on the economy. In addition, to ensure appropriate representation of each geographic region and industry, the sample selection was made according to the 28 district taxation regions and the appropriate 159 industry groups in the Standard Industrial Classification. This process resulted in the selection of 699 companies and provided the data base on which quantitative analysis was conducted and projections made to assess the impact of the measures on the manufacturing and processing sector as a whole.

In order to examine the quantitative effects of the tax measures on individual manufacturing and processing industries, it would have been necessary to select separate samples for each of the 159 industry groups. This would, however, have required a sample of unmanageable size, without contributing significantly to the major objective of the review, which was to assess the overall impact of the tax measures. To avoid this difficulty, while at the same time obtaining a reasonable range of opinion within various industry groups, an additional 389 representative companies were identified by industry sector officials. The replies of these firms were used in conjunction with the PPS sample and the interview results for purposes of a qualitative examination of the ways in which manufacturers and processors perceived the effects of the measures.

An interview was requested of the chief executive officer of 250 companies of varying size, but including most of Canada's largest manufacturing and processing companies. The interview was used to verify the accuracy of the company's responses, and to lend perspective to the nature of the relationship between the tax measures and the company's response to them. The services of Canadian Executive Service Overseas (CESO) were enlisted to conduct the interviews. This non-profit corporation consists mainly of retired Canadian business executives whose major activity is to provide, under the auspices of the Canadian International Development Agency, managerial and technical expertise to enterprises in less-developed countries. CESO executives have carried out similar interview assignments for surveys conducted by the Department of Industry, Trade and Commerce, and the Department of Consumer and Corporate Affairs.

The CESO consultants were briefed on the measures and on the questionnaires. Each consultant interviewed the senior officers of a number of firms and submitted his report to the Secretary of the Tax Measures Review Committee. A small number of interviews were conducted by government officials in order to obtain a firsthand knowledge of the impact companies considered the tax measures would have and also to facilitate a fuller understanding of the interview process.

Information obtained through the questionnaire procedure was analyzed to produce:

(a) descriptive statistics of the PPS sample and of the qualitative information obtained from both samples as well as the interviews; and

(b) an estimate of the direct impact of the measures on the manufacturing and processing sector and an assessment of the over-all impact of the tax measures.

The descriptive statistics present respondents' data such as the total amount of new investment which would be undertaken or jobs created by the respondents as a direct result of the tax measures. The qualitative analysis consists of an examination of the various subjective judgments made by the respondents, such as the reasons they gave for their belief that the measures would or would not improve their competitive position.

By projecting the PPS sample results, an estimate was made of the direct impact on the total manufacturing and processing sector. These projected totals were then incorporated into the Bank of Canada's RDX-2 econometric model to provide a basis for the assessment of the over-all impact of the tax measures.

CHARACTERISTICS OF RESPONDENT FIRMS

Of the 699 firms selected in the PPS sampling process, 514 or 73.5 per cent returned completed questionnaires. These returns provided data on a total of 1,066 corporations, since the reports of many parent firms covered the operations of their subsidiaries. In 1972, these corporations accounted for 610,756 jobs, sales of $32.4 billion including exports of $8.3 billion, and fixed assets with a net book value of $9.7 billion. It is estimated the respondents represented 47 per cent of total sales of Canadian manufacturers and processors and 48 per cent of total fixed assets.

An examination was conducted of the characteristics of the respondents, including employment, net book value of fixed assets and fixed assets per employee, domestic sales, and exports. For example, in terms of export activity in 1972, 28.6 per cent of the respondents had no exports, 55.7 per cent exported up to 50 per cent of their total sales, and 15.7 per cent exported over 50 per cent of their output. In terms of employment, 20.6 per cent of the respondents employed up to 100 people, 47.5 per cent employed from 101 to 1,000 people, and 31.9 per cent employed over 1,000 workers. This analysis confirmed that the firms included in the survey and providing information comprised a cross-section of the manufacturing and processing sector as a whole.

As noted previously, some 389 firms were surveyed in addition to the PPS sample to provide qualitative information relevant to industries in the manufacturing and processing sector. Replies were received from 268 firms or 68.9 per cent of the total. Their returns provided information on a total of 456 companies in 82 different industries. In 1972, these companies accounted for 96,909 jobs, total sales of $4 billion, and exports of $426 million.

SURVEY RESULTS

IMPACT OF THE TAX MEASURES ON RESPONDENTS' OPERATIONS

The replies of companies to the questionnaire and the interview reports revealed a range of views among company executives about the impact or lack of impact the tax measures would have on their operations. An examination of these qualitative judgments, as obtained from all replies and from interviews, is presented in detail in Appendix 2.

TABLE 1[1]

Summary of Effects of Tax Measures

	% of respondents
Improve competitive position [2]	
Some positive effect	86.6
Moderate to very important effect	69.2
Increase investment	52.5
Increase employment	57.0
Increase sales	49.9
Enable industry sector to reduce or moderate prices	
Some positive effect	81.0
Moderate to very important effect	52.8
Improve ability to raise external financing	38.2
One or more of the above	91.4

[1] As indicated in the text, Tables 1 to 16 are based on data provided by respondents in the Probability Proportional to Size sample.

[2] With respect to domestic or foreign sales in the 1972–75 period or later.

Quantitative results, including the descriptive statistics and the estimate of the impact on the total manufacturing and processing sector, were calculated from the responses made by the firms selected by the PPS sampling procedures. An analysis of the PPS sample data indicates that 91.4 per cent of the respondents reported that the measures would have a positive effect in one or more ways on their operations or their competitive position.[3] Table 1 shows these various effects, including: an improvement in competitive position, an increase in investment, employment or sales, price restraint, and an improved ability to raise funds. The table also shows the proportion of respondents citing each of the various effects.

1. Competitive Position

Companies were asked to assess the overall impact of the tax measures on their ability to improve their competitive position in domestic and foreign markets for the years 1972–75 and the period beyond 1975. As shown in Table 1, 86.6 per cent of the respondents indicated that the measures would have a positive impact on their competitive position. Some 69.2 per cent reported a moderate to very important effect.

As shown by the summary of replies in Table 2, more than 54 per cent of respondents expected the tax measures to have a moderate to very important impact on their competitive position in Canadian markets in the period 1972–75, and more than 62 per cent expected these effects to be moderate to very important beyond 1975. In the case of foreign markets, more than 52 per cent of respondents expected the measures to have a moderate to very important impact from 1972–75, and more than 62 per cent viewed the measures as having a significant impact beyond 1975.

[3] While some respondents indicated that the tax measures were *already having* an impact on their operations, others indicated that additional time would be required to achieve tangible results through, for example, an increase in investment. In the latter case, respondents reported that measures *would have* an impact on their operations. For purposes of simplication, the text refers to all effects of the tax measures in the future tense.

TABLE 2

Impact of Tax Measures on Competitiveness

Year	Canadian Market 1972–75	Canadian Market Beyond 1975	Foreign Markets 1972–75	Foreign Markets Beyond 1975
		Percentage of respondents		
Very Important	7.8	11.8	13.0	18.5
Important	21.1	22.9	20.7	23.3
Moderate	25.4	28.0	19.0	20.4
Little	25.8	19.7	25.6	20.4
None	19.9	17.6	21.8	17.4
	100.0 [1]	100.0	100.0	100.0

[1] Percentage in Table 2 and succeeding tables may not add to 100 per cent exactly, because of rounding.

Table 2 also indicates that the respondents viewed the measures as having a greater impact on their competitive position in the longer term than in the period 1972–75. In addition, those who judged the effect of the measures to be "very important" placed greater emphasis on the effects in foreign than in domestic markets for both time periods.

Appendix 2 (Tables 1A and 1B) summarizes the reasons cited as to why the tax measures would or would not improve a firm's competitive position. An improved ability to undertake investment was cited most frequently, followed by restraint on prices, improved financial strength, and reduced costs.

A total of 13.4 per cent of respondents did not anticipate an improvement in their competitive position. The primary reasons given were that advantages were nullified because the measures were available to all Canadian competitors, and that beneficial effects were offset by the delay in passing the legislation or by uncertainty surrounding the continuation of the measures.

2. Investment

Companies were asked to indicate whether their plans to invest in machinery and equipment and/or in buildings and structures would be altered because of the tax measures and, if so, by what amount. A total of 52.5 per cent indicated that the measures would enable them to increase their investment plans. Table 3 indicates the amounts involved in each of the four years 1972 to 1975.

The planned increases in investment were expected to peak in 1974, but to continue at a significant level in 1975. The increase of $1.1 billion in machinery and equipment over the period 1972–75 compares with the respondents' net book value of $6.9 billion in machinery and equipment in 1972. Similarly, their intention to invest an additional $315 million in buildings and structures over the period as a result of the tax measures compares with their 1972 net book value of $2.8 billion in this category of assets.

TABLE 3

Increase in Investment as a Result of Tax Measures

Year	Machinery and Equipment	Buildings and Structures	Total
		Millions of dollars	
1972	45.2	10.8	56.0
1973	209.5	83.0	292.5
1974	536.1	152.0	688.1
1975	354.0	69.5	423.5
Total	1,144.8	315.3	1,460.1

Companies were asked whether the added investment in machinery and equipment would be directed mainly to improve existing operations, to expand the capacity of present product lines, or to establish different product lines. Table 4 shows that most respondents expected this new investment to be applied to expanded or improved operations in present product lines, rather than to the introduction of new products.

TABLE 4

Relative Importance of Type of Investment in Machinery and Equipment

Type of Investment	Most Significant
	%
Expansion of capacity in present product lines	57.0
Improvement in existing operations	29.3
Establishment of different product lines	13.7
	100.0

Companies were also requested to indicate the extent to which they expected the tax measures to result in investment in Canada rather than abroad. They were not asked to limit their replies to the period 1972–75. A total of 46 respondents expected to undertake an additional 67 projects in Canada rather than in foreign countries as a result of the tax measures. The expected level of investment and jobs created are indicated in Table 5.

The respondents' increase in investment expected as a result of the tax measures in the period 1972–75, as shown in Table 3, was nearly $1.5 billion. The figures in Table 5 indicate that $266 million, or 18.2 per cent of the total, was expected to be due to investments undertaken in Canada rather than abroad. These results also indicate that the measures were expected to play a significant role in investment and job creation beyond 1975.

A number of companies cited the reasons for the changes in their investment plans. Appendix 2 (Table 2A) shows the frequency with which various reasons were advanced. An increase in volume through plant expansion was mentioned most frequently, followed by improved efficiency or productivity through modernization or rationalization, and establishment of production facilities for new products.

Appendix 2 (Table 2B) tabulates the reasons given by companies in cases where the measures were not expected to influence their investment decisions. The reasons given most frequently were that investment plans had been formulated or were underway prior to implementation of the tax measures, factors other than tax changes influence investment, and not enough advantage was derived from the tax measures.

3. Employment

Companies were asked to state the average number of employees engaged in their manufacturing and processing operations in 1972, and to estimate the number of jobs which would be created or eliminated as a result of the measures for each of the years 1972–75. Replies to this question indicated that 57 per cent of the respondents expected, as a direct result of the tax measures, to increase their employment over the period. Smaller companies reported relatively more impact on employment than larger companies.

TABLE 5

Investment and Employment in Canada Instead of in Foreign Countries Because of Tax Measures

Year	Investment	New Jobs Created	Man-Years of Employment
	$000		
1972	0	0	0
1973	26,764	341	341
1974	45,542	1,407	1,748
1975	193,607	3,369	5,117
1976	95,650	1,710	6,827
1977	60,000	470	7,297
Year not stated	54,920	618	7,915
Total 1972–77	476,483	7,915	29,245
of which 1972–75	265,913	5,117	7,206

TABLE 6

Changes in Employment in Respondents' Operations as a Result of Tax Measures

Year	New Jobs Created	Man-Years of Employment
1972	1,842	1,842
1973	8,298	10,140
1974	11,312	21,452
1975	8,543	29,995
Total	29,995	63,429

Table 6 indicates that annual job creation was expected to peak in 1974. The total increase in employment of 29,995 jobs over the period 1972–75 compares with total employment in manufacturing and processing for the responding companies of 610,756 in 1972. As Table 5 indicates, 5,117 of these new jobs, or 17.1 per cent, would otherwise have been created in other countries.

4. Sales

Companies were asked to indicate the value of their 1972 sales from Canadian manufacturing and processing operations, the percentage change in sales realized or expected for each of the years 1972–75 inclusive, and an estimate of the increase, if any, attributable to the measures. From this information, it was possible to calculate the expected influence of the tax measures on sales volume. Over the 1972–75 period, 49.9 per cent of respondents anticipated sales in either domestic or foreign markets because of the tax measures. Table 7 summarizes the sales which firms expected as a result of the measures.

The impact on sales was relatively modest in 1972, but the effects were expected to gather momentum throughout the period. Over the four years 1972–75, respondents estimated that the measures would result in a total increase in sales of $2.9 billion in the domestic market and more than $1.1 billion in foreign markets. These increases compare with a manufacturing and processing sales volume for the same companies in 1972 of $24.1 billion in the domestic market, and $8.3 billion in export markets.

5. Prices

Companies were asked to assess the impact of the tax measures on their industry's ability to reduce prices or to moderate price increases by absorbing increases in costs over the period 1972–75. As illustrated in Table 8, 81 per cent of the respondents reported that the tax measures would have some effect in enabling their industry to exercise price restraint, with 53 per cent reporting a moderate to very important effect.

Companies were also asked to explain the influence which the measures would have on their pricing policies. Appendix 2 (Table 3A) summarizes the reasons advanced to explain why the measures would facilitate price restraint. More than 55 per cent of the responses cited the impact of the measures in partially offsetting rising costs. A further 24 per cent reported that investment in plant modernization or expansion was expected to improve overall efficiency with an attendant lowering of production costs.

Appendix 2 (Table 3B) presents the reasons given in instances where the tax measures were not expected to permit prices to be reduced or increases moderated. By far the most frequent reason advanced was that other factors, such as international supply and demand factors or cost of materials, etc., were more important as price determinants than the tax measures.

TABLE 7

Domestic and Export Sales as a Result of Tax Measures

Year	Domestic Sales	Export Sales	Total
		Millions of dollars	
1972	116.8	7.3	124.1
1973	477.4	96.5	573.9
1974	897.7	342.9	1,240.6
1975	1,371.5	716.9	2,088.4
Total	2,863.4	1,163.6	4,027.0

TABLE 8

Impact of Tax Measures on Ability of Respondents' Industry to Reduce Prices or Moderate Price Increases

	% of respondents
Very Important	5.5
Important	17.4
Moderate	30.0
Little	28.2
None	19.0
	100.0

6. External Financing

Companies were asked whether the tax measures would increase, decrease or leave unchanged their need for and ability to raise funds external to their operations. Table 9 tabulates the replies to these questions.

TABLE 9

Effect of Tax Measures on Need for and Ability to Secure External Funds

	Need for External Funds	Ability to Secure External Funds
	Percentage of respondents	
Increased	17.8	38.2
Decreased	33.9	0.2
No Change	48.3	61.6
	100.0	100.0

Almost half the respondents expected no change in their need for funds external to their operations, and just over 60 per cent expected no change in their ability to secure external funds. While 17.8 per cent of the respondents expected to experience an increased *need* for external funds, a much higher proportion – 38.2 per cent – concluded that their *ability* to secure additional financing would be increased as a result of the tax measures. Appendix 2 (Table 4) shows that the most frequently cited reason for an increased need for such financing was that internally generated funds would be insufficient to provide the fixed or working capital required to finance new projects or projects which had been advanced in time because of the tax measures. Among the firms which expected a reduction in their need for external financing, the availability of an improved internal cash flow position was the predominant reason advanced. Appendix 2 (Table 5) shows that an improvement in profitability or cash position was most frequently cited as a reason for an improved ability to raise external funds. An improved debt/equity position was also frequently mentioned.

7. Distribution of Earnings

Companies were asked to state the percentage of their after-tax earnings which had been distributed to shareholders in the years 1968 to 1972. They were also asked to indicate whether they anticipated that the percentage of earnings distributed would increase, decrease or remain unchanged over the period 1972 to 1975, as compared with their 1968–72 average. Tables 10 and 11 summarize the data submitted by respondent companies.

TABLE 10

Distribution of Earnings

	Average Annual Level of Distribution by Respondents	Proportion of Respondents having Distributed no Earnings
Year	% of earnings	% of respondents
1968	21.2	60.0
1969	19.6	59.2
1970	23.1	60.2
1971	23.6	56.7
1972	24.4	53.6
1968–72	22.5	44.6

TABLE 11

Change in Distribution of Earnings for 1972–75 Compared with 1968–72

	% of respondents
Increase	23.2
Decrease	21.0
No Change	55.9
	100.0

On an annual average, respondents distributed 22.5 per cent of their after-tax earnings to shareholders over the period 1968–72. A high proportion of respondents – up to 60.2 per cent – did not distribute earnings in any one year, and 44.6 per cent distributed no earnings whatsoever in the period. With respect to the immediate future, over half the respondents expected no change in their average annual percentage distribution of after-tax earnings over the period 1972–75, while the remainder were about equally divided between those who expected to increase and those who expected to decrease their percentage distribution of earnings.

Appendix 2 (Tables 6A, 6B and 6C) details the reasons advanced, and their frequency, for the intentions of firms regarding the distribution of earnings in the period 1972 to 1975. The major reason advanced for increasing distributed earnings was that the company was just maturing or had been in a loss position, while future expectations would permit the payment of increased or initial dividends. The most frequently cited reason for decreasing dividend payments was the desire to finance expansion or other investment plans from earnings. Companies which anticipated no change in their dividend payments most often cited company policy either to reinvest all earnings or to distribute a target percentage of earnings.

PROJECT PLANNING AND EXECUTION

In order to provide additional information on the timing of major investments undertaken because of the tax measures, companies were asked to define: (i) the level of investment expenditure which they considered a major project; (ii) the average period of time involved in analyzing an investment project prior to taking the decision to proceed with that investment; and (iii) the average period of time which would elapse between the decision to proceed with an investment and the completion of that investment.

Tables 12 and 13 summarize the replies to these questions.

For many of the respondents, the analysis and subsequent planning of major projects was a lengthy process. The average major project required 7.7 months of analysis, and an additional 12.2 months for completion. From the survey data, it was not possible to calculate the proportion of projects brought about by the measures which would consist of major investments. Slightly over 60 per cent of respondents, however, considered investments of up to $100,000 to be major projects. It would appear, therefore,

TABLE 12

Size of Major Investment Decisions

Investment Category $	% of respondents
Up to – 50,000	41.9
50,000 – 100,000	22.6
100,000 – 500,000	21.3
500,000 – 1,000,000	9.5
1,000,000 – 5,000,000	4.1
Over 5,000,000	0.7
	100.0
Average $485,885	

TABLE 13

Average Time Required to Analyze and Complete Major and Minor Projects

Time in months	Major Projects Analysis	Major Projects Completion	Smaller Projects Analysis	Smaller Projects Completion
	Percentage of respondents			
Up to 5	35.3	15.6	86.5	64.3
5– 8	33.9	20.9	9.6	25.3
9–12	21.8	30.1	3.4	8.0
13–24	6.2	28.4	0.2	1.9
25–40	2.1	4.0	0.2	0.5
Over 40	0.7	1.0	0.0	0.0
Average	7.7	12.2	2.6	4.4

that a significant proportion of the projects undertaken because of the tax measures would require a year and a half from initiation to completion.

Although the two-year write-off on machinery and equipment was made retroactive to May 8, 1972, and the reduction in corporate taxes was effective January 1, 1973, final approval for these measures was given only in the summer of 1973. In view of the time required to bring projects to fruition, particularly those which involved a major investment, it could be expected that many decisions would be taken only in the course of 1974, and resulting investments carried out in 1974 and 1975. Similarly, many of the benefits resulting from these investments in the way of additional jobs and an improved competitive position would be realized only in the years following completion of the investments.

GENERAL IMPACT OF THE TAX MEASURES

IMPACT ON THE MANUFACTURING AND PROCESSING SECTOR

Using information on the respondents' assets, taxable income, profits, equity, and sales, the Probability Proportional to Size sample results were projected to produce an estimate of the direct impact of the tax measures on the total manufacturing and processing sector of the economy. As indicated previously, 514 companies, or 73.5 per cent of the 699 companies selected by the PPS sampling process, replied to the questionnaire. The impact of the tax measures on the non-respondents was not known, and for purposes of this interim report, the most conservative assumption of a zero impact of the tax measures on non-respondents was adopted. That is to say, it was assumed that firms which did not reply to the mailed questionnaire would have reported no increase in investment, employment, sales or other aspects of their operations as a result of the tax measures.

Table 14 provides an estimate of the new investment generated in the total manufacturing and processing sector in response to the tax measures. On the basis of the PPS survey, it was estimated that a total of $2.3 billion of new investment would be generated over the four-year period 1972–75. Nearly $1.8 billion of this projected increase in investment, or approximately 77 per cent, consisted of expenditures on machinery and equipment, while rather more than $500 million represented new expenditures on buildings and structures. Approximately 69 per cent of the total additional investment was projected to occur in 1974 and 1975.

The peaking of investment in 1974 is consistent with the survey of investment intentions carried out by the Department of Industry, Trade and Commerce. The 200 large corporations covered in that survey reported an anticipated increase of 21.8 per cent in total investment in 1974, with the manufacturing sector expecting a relatively large increase of 49.2 per cent. It should be noted, however, that both the tax measures survey and the Industry, Trade and Commerce investment intentions survey were conducted before the international energy situation changed sharply in the late autumn of last year. In addition, investment expenditures in 1974 now seem likely to be constrained somewhat by shortages of materials such as steel and other construction materials. The effect of these factors on the investments forecast by the survey could not, however, be estimated for purposes of this report.

TABLE 14

Direct Impact on Investment in the Manufacturing and Processing Sector

Year	Additional Investment in Machinery and Equipment	Additional Investment in Buildings and Structures	Total Additional Investment
		Millions of dollars	
1972	123	41	164
1973	404	157	561
1974	771	242	1,013
1975	490	96	586
Total	1,788	536	2,324

TABLE 15

Direct Impact on Employment in the Manufacturing and Processing Sector

Year	New Jobs Created	Man-Years of Employment
1972	8,060	8,060
1973	24,350	32,410
1974	36,150	68,560
1975	25,850	94,410
Total	94,410	203,440

Table 15 shows that, on the basis of the survey results, it was estimated that more than 94,000 new jobs would be created in the manufacturing and processing sector as a direct result of the tax measures over the period 1972–75. Approximately 62,000 of these jobs, or 65 per cent of the increase, were estimated to be created in 1974 and 1975.

TABLE 16

Direct Impact on Domestic and Foreign Sales in the Manufacturing and Processing Sector

Year	Additional Canadian Sales	Additional Export Sales	Total Additional Sales
	Millions of dollars		
1972	353	23	376
1973	1,180	210	1,390
1974	2,371	576	2,947
1975	3,642	1,095	4,737
Total	7,546	1,904	9,450

Table 16 presents the projections of the estimated effect of the measures on the level of sales in the manufacturing and processing sector. Direct increases in sales due to the tax measures were estimated to total more than $9.4 billion over the period 1972–75. Approximately $7.5 billion, or 80 per cent of the increase, was represented by increased Canadian sales, with the remaining $1.9 billion in increased export sales.

IMPACT ON THE ECONOMY

An assessment of the total impact of the tax measures on the economy was undertaken with the aid of the Bank of Canada's RDX-2 econometric model of the Canadian economy. This analysis suggested that the total impact on the economy, including indirect and induced effects, would be significantly larger than the direct effects on the manufacturing and processing sector. In increasing its level of activity, the manufacturing and processing sector places additional demands on other sectors of the economy, such as the service sector. In addition, the incomes paid to those providing the additional capital goods to the manufacturing sector, or employed to produce the higher level of sales, will largely be spent on additional goods and services. For reasons discussed below, however, the exact magnitude of these effects could not be estimated with precision in current circumstances.

In an analysis of the effects on the economy of a particular policy, it is important that any supply limitations or capacity constraints be rigorously and explicitly specified. In the present case, rapid increases in output and employment in 1973 have pushed the economy up against the limit of its productive capacity in a number of areas.[1] These pressures on capacity are reflected in shortages of a number of goods and commodities and certain labour skills, with effects on manufacturers' investment plans. The exact extent and nature of such supply limitations and capacity constraints should become clearer during 1974, and a further examination will be conducted of the use of existing econometric models in the context of current conditions before the presentation of the final report of the Committee.

Information for this interim report was collected only a few months after the tax measures became law, and before recent developments in relation to the world energy situation. For purposes of the final report to be completed later this year, current information will again be collected from the manufacturing and processing sector. Companies will have had more time to assess the effects of the tax measures in relation to prevailing economic conditions. There should therefore be a better opportunity to assess in some detail the aggregate effects on the Canadian economy in the Committee's final report.

[1] In 1973, the Canadian economy grew at 7.1 per cent in real terms. This rate is well above the annual average of 5 to 5.5 per cent which can be expected over the longer run.

No attempt was made for purposes of this report to evaluate the effects of the tax measures beyond the end of 1975. A longer-term analysis of the impact of the tax measures would focus on the structural effects on the manufacturing and processing sector and on other sectors of the economy.

From the results obtained from the survey conducted for the committee's interim report, however, it seems clear that the measures were expected to have a significant impact in improving the longer-term competitive position of the manufacturing and processing sector. Manufacturing and processing firms expected the measures to help them to take advantage of current economic conditions, expand or improve their operations through an increase in investment, jobs and sales, and strengthen their position in relation to competitors abroad.

CONCLUDING COMMENTS

Judging by the survey results, the tax measures appear to have had a significant impact on manufacturing and processing firms with roughly 50 per cent of the respondents reporting increased levels of activity in the form of increased investment, sales or employment. In addition, there is a considerable degree of consistency in the results of the survey. For example, it seems reasonable that investment projections should rise to a peak in 1974 and then taper off, given the time taken to plan and implement investment decisions, and given that predictability declines the further one looks into the future beyond the actual planning cycle, as well as the influence of the two year capital cost allowance, which terminates at the end of 1974. Similarly, it is logical to find that estimates of sales continue to rise after the year in which investment is currently expected to peak.

The actual figures provided by the respondents were, of course, partly subjective in nature, reflecting expected rather than actual results. Judgments had to be made despite the uncertainties characteristic of a dynamic and complex economy. Inevitably, the human element is bound to introduce some margin of error, which will vary from firm to firm. It is also relevant to note that the tax measures survey was conducted at a time of generally buoyant economic conditions, and it is not surprising that companies generally tended to be optimistic in their projections. There may also be a natural tendency for firms to be overly optimistic with respect to predicting their relative share of sales in future years. For example, while firms might be in close agreement as to the overall effect of the tax measures on improving future years' sales, individual firms might tend to think they would benefit by more than the average at the expense of their competitors.

On the whole, the survey results may tend to overstate the actual direct effects in the short and medium term, particularly in the light of recent developments such as the world wide increases in petroleum prices. At the same time, the impact of the tax measures may not be fully reflected during this period, since a general improvement in the competitive position of the manufacturing and processing sector can be expected to have favourable longer term effects.

The analysis of information received from the survey does indicate that the tax measures were clearly expected to have a significant effect in creating a favourable investment climate and in improving the competitive position of Canadian manufacturing and processing firms. Nearly 87 per cent of the respondents expected some positive effect on competitive position, with more than 69 per cent reporting a moderate to very important effect. The impact on competitive position was expected to be particularly important in the period beyond 1975.

This improvement in the operating environment for Canadian manufacturing and processing firms appeared to be confirmed by the fact that approximately one-sixth of the increase between 1972 and 1975 in investment and employment attributed to the tax measures was composed of activity which would otherwise have taken place in foreign countries. This effect of encouraging investment and employment in Canada rather than in foreign countries was expected to continue in the period beyond 1975.

The respondents reported that the improved operating environment would result in substantial increases in past and planned investment, the creation of additional jobs and higher sales. They also attributed to the tax measures an increased financial strength and an improved ability for manufacturing and processing industries to exercise price restraint. In addition, they indicated, on average, no expected change in the percentage distribution of after-tax earnings to shareholders.

In summary, the tax measures were expected to have a significant and continuing effect in improving the competitive position of the manufacturing and processing sector, and in strengthening the ability of manufacturing and processing firms to expand investment and sales and to provide an increasing number of jobs for Canada's growing labour force.

APPENDIX 1

TAX MEASURES REVIEW COMMITTEE
COMITÉ D'ÉTUDE DES MESURES FISCALES

NOTE:

The information requested in this survey is intended to assist in evaluating the economic impact of the new tax measures for the manufacturing and processing industries. These measures comprise a two-year capital cost allowance on machinery and equipment and the reduced taxation rate on manufacturing and processing profits.

This information will be treated with the highest degree of confidentiality. Information relating to individual companies will not be available to anyone other than officials associated with the work of the Tax Measures Review Committee.

Any inquiries related to this survey should be directed to the Secretary, Tax Measures Review Committee, Telephone (613) 992-8664, or (613) 995-6227, Ottawa.

NOTE:

Les renseignements demandés dans ce sondage ont pour objet d'aider à évaluer les répercussions économiques des nouvelles mesures fiscales sur les industries de fabrication et de transformation. Ces mesures comportent un amortissement en deux ans du coût en capital du matériel et de l'équipement et un taux d'imposition réduit sur les bénéfices de fabrication et de transformation.

Ces renseignements que vous nous fournirez seront considérés comme hautement confidentiels, et ne seront accessibles qu'aux fonctionnaires associés au travail du Comité d'étude des mesures fiscales.

Pour toutes demandes de renseignements au sujet de ce sondage, veuillez vous adresser au Secrétaire, Comité d'étude des mesures fiscales, numéro de téléphone (613) 992-8664 ou 995-6227 à Ottawa.

INSTRUCTIONS

1. It would be appreciated if the completed questionnaire were submitted within 30 days of its receipt. Completed forms should be sent to:

   Secretary, Tax Measures Review Committee,
   Government of Canada,
   Tower B, Place de Ville,
   OTTAWA, Ontario.
   K1A 0H5

2. Complete the questionnaire with respect to your company and Canadian-based affiliates whose activities are in manufacturing or processing and whose results are reported by your company.

3. In the event that your company is part of a multi-company group and the information requested from your company would normally be provided by your parent company, do not complete the questionnaire; rather, forward it to your parent company for completion and advise the Secretary of the Tax Measures Review Committee that the information related to your activities will be forthcoming from your parent company. Name the parent company and a company official who can be contacted.

4. If you are reporting for a multi-company group, list in the space provided the complete legal names of those companies for which you are reporting.

5. If your company is not involved in manufacturing or processing, return the uncompleted questionnaire.

6. It would be preferable if this information could be provided on a calendar year basis. If this is not possible, indicate in the space provided to what fiscal year period the information will relate and provide all information on that basis.

7. In questions related to dollar values, express all amounts in thousands of Canadian dollars.

8. Since executive judgment will be required to answer parts of this questionnaire, explanatory comments should be attached where appropriate.

INSTRUCTIONS

1. *Nous vous saurions gré de nous renvoyer le questionnaire rempli dans les 30 jours de sa réception à l'adresse suivante:*

   Le Secrétaire, Comité d'étude des mesures fiscales
   Gouvernement du Canada
   Tour B, Place de Ville
   OTTAWA, (Ontario)
   K1A 0H5

2. *Veuillez remplir le questionnaire pour votre société et ses filiales situées au Canada dont les activités relèvent de la fabrication ou de la transformation et dont les résultats sont rapportés par votre société.*

3. *Si votre société faisant partie d'un groupe de sociétés multiples et que les renseignements demandés à vôtre société seraient normalement fournis par votre société mère, veuillez ne pas remplir le questionnaire; envoyez-le plutôt à votre société mère pour qu'elle le remplisse et informez le secrétaire du Comité d'étude des mesures fiscales que les renseignements relatifs à vos activités proviendront de votre société mère. Veuillez indiquer le nom de la société mère et un dirigeant de la société qui peut être contacté.*

4. *Si vous fournissez des renseignements au nom d'un groupe de sociétés multiples, veuillez inscrire au complet dans l'espace prévu à cet effet les raisons sociales des sociétés pour lesquelles vous faites rapport.*

5. *Si votre société ne s'occupe pas de fabrication ou de transformation, veuillez retourner le questionnaire non rempli.*

6. *Il serait préférable que les renseignements fournis s'appliquent à une année civile. Si ce n'est pas possible, veuillez indiquer dans l'espace prévu à cet effet à quelle période de l'année financière correspondent les renseignements et fournir tous les renseignements sur la base de cette période.*

7. *Lorsque les réponses aux questions doivent être exprimées en dollars, veuillez exprimer tous les montants en milliers de dollars canadiens.*

8. *Comme il sera nécessaire d'exercer votre jugement d'administrateur pour répondre à certaines questions, veuillez joindre des notes explicatives s'il y a lieu.*

FIN 240-6 (8/73)

CONFIDENTIAL (WHEN COMPLETED)
CONFIDENTIEL (UNE FOIS REMPLI)

TAX MEASURES REVIEW ***ÉTUDE DES MESURES FISCALES***

A. DESCRIPTION OF COMPANY – *DESCRIPTION DE LA SOCIÉTÉ*

LEGAL NAME OF COMPANY – *RAISON SOCIALE*

MAILING ADDRESS · *ADRESSE POSTALE*

Nature of business and principal products made in Canada
Nature de l'entreprise et principaux produits fabriqués au Canada

Give the complete legal names and addresses of the Canadian companies included in this report.
Donnez au complet les raisons sociales et les adresses des sociétés canadiennes comprises dans ce rapport.

Will you report on a calendar year basis?
Fournissez-vous les renseignements sur la base d'une année civile?

☐ YES *OUI* If no, define your fiscal period.
Dans la négative, définissez votre exercice financier.

☐ NO *NON*

Net book value of fixed assets used in manufacturing and processing, in Canada.
Valeur comptable nette des immobilisations utilisées dans la fabrication et la transformation

Machinery and equipment *Matériel et équipement* ($'000) ____________

Buildings and structures *Bâtiments et structures* ($'000) ____________

TOTAL ($'000) ____________

If not as of Dec. 31/72, indicate date
Si elle n'est pas arrêtée au 31 déc. 1972 indiquez la date

Value of 1972 sales from Canadian manufacturing and processing operations.
Montant des ventes en 1972 découlant des activités de fabrication et de transformation.

In Canada *Au Canada* ($'000) ____________

Export *A l'étranger* ($'000) ____________

TOTAL ($'000) ____________

Name, title and telephone number of company official who can be contacted regarding this survey
Nom, titre et numéro de téléphone d'un dirigeant de la société qui peut être contacté au sujet de ce sondage

Average annual number of employees in 1972, engaged in manufacturing and processing in Canada
Nombre annuel moyen d'employés affectés en 1972 à la fabrication et à la transformation au Canada

B. IMPACT OF TAX MEASURES (Comprising effect of accelerated capital cost allowance & lower tax rate)
RÉPERCUSSIONS DES MESURES FISCALES *(Y compris les répercussions de l'amortissement accéléré ou coût en capital et du taux d'imposition réduit)*

Assess the overall impact of the tax measures on the ability of your company(s) to improve its competitive position during the following periods and for the following markets. Elaborate briefly in a separate note.

Évaluez l'impact global des mesures fiscales sur votre capacité à améliorer votre position concurrentielle pendant les périodes et pour les marchés suivants. Expliquez quelque peu dans une note annexée.

MARKET *MARCHÉ*		NONE *AUCUN*	LITTLE *PEU*	MODERATE *MODERÉ*	IMPORTANT	VERY IMPORTANT *TRÈS IMPORTANT*
FROM MAY 8/72 TO DEC. 31, 1975 *DU 8 MAI, 1972 JUSQU'AU 31 DÉC. 1975*	Canadian *Canadien*					
	Foreign *À l'étranger*					
BEYOND 1975 *APRÈS 1975*	Canadian *Canadien*					
	Foreign *À l'étranger*					

Estimate the total percentage change (increase +, decrease –) in sales either realized or expected during the years indicated below (excluding any anticipated general price changes)

Estimez en pourcentage (augmentation +, diminution –) la variation totale des ventes réalisées ou prévues au cours des années indiquées ci-dessous (à l'exclusion de tout changement général de prix prévu.)

% CHANGE *VARIATION EN POURCENTAGE*	IN CANADA · *AU CANADA*	EXPORTS · *A L'ÉTRANGER*
1972 % change over 1971 *1972 variation en % par rapport à 1971*		
1973 % change over 1972 *1973 variation en % par rapport à 1972*		
1974 % change over 1973 *1974 variation en % par rapport à 1973*		
1975 % change over 1974 *1975 variation en % par rapport a 1974*		

Have the tax measures influenced these changes?
Les mesures fiscales ont-elle influé sur ces variations?

☐ YES *OUI* ☐ NO NON

If yes indicate below what the percentage change might have been in the absence of the measures.
Dans l'affirmative, indiquez quelle aurait été la variation en pourcentage si ces mesures n'avaient pas été adoptées:

% CHANGE *VARIATION EN POURCENTAGE*	IN CANADA – *AU CANADA*	EXPORTS – *À L'ÉTRANGER*
1972 % change over 1971 *1972 Variation en % par rapport à 1971*		
1973 % change over 1972 *1973 Variation en % par rapport à 1972*		
1974 % change over 1973 *1974 Variation en % par rapport à 1973*		
1975 % change over 1974 *1975 variation en % par rapport à 1974*		

Assess the impact of the tax measures on your industry's ability to reduce prices or to moderate price increases by absorbing increases in costs from May 8, 1972 up to and including 1975.

Évaluez l'impact des mesures fiscales sur la capacité de votre secteur industriel à réduire les prix ou à tempérer la hausse des prix en absorbant la hausse des coûts du 8 mai, 1972 jusqu'en 1975 inclusivement.

☐ NONE *AUCUN* ☐ LITTLE *PEU* ☐ MODERATE *MODÉRÉ* ☐ IMPORTANT ☐ VERY IMPORTANT *TRÈS IMPORTANT*

Explain what influence the tax measures have had or will have on your company's pricing policy from May 8, 1972 up to and including 1975, with examples if possible.
Expliquez quelle a été ou sera l'influence des mesures fiscales sur la politique de fixation de prix de votre compagnie au cours de la période du 8 mai, 1972 jusqu'en 1975 inclusivement, et citer des exemples si possible.

IN CANADA – *AU CANADA*	EXPORTS – *À L'ÉTRANGER*

Have you altered your investment plans as a result of the tax measures? ☐ YES ☐ NO
Avez-vous modifié vos plans d'investissement par suite des mesures fiscales? *OUI* *NON*

If yes, indicate below by what amount your fixed investment plans have been changed (increase +, decrease –) as a result of the new tax measures.
Dans l'affirmative, de quel montant vos plans d'immobilisation ont-ils varié (augmentation +, diminution –) comme conséquence des nouvelles mesures fiscales?

TYPE OF INVESTMENT *PLANS D'INVESTISSEMENT*	1972 ($'000)	1973 ($'000)	1974 ($'000)	1975 ($'000)
Machinery and equipment *Matériel et équipement*				
Buildings and structures *Bâtiments et structures*				

If no, explain – *Dans la négative, veuillez expliquer pourquoi*

If as a result of the tax measures, you have increased or intend to increase your purchases of machinery and equipment, rank below the purpose for which that machinery and equipment is being or will be used, ranking them in order of importance (1 for most significant)
Si, par suite des mesures fiscales, vous avez augmenté ou avez l'intention d'augmenter vos achats de matériel et d'équipement, précisez à quel usage ce matériel et cet équipement sont ou seront affectés, en indiquant l'ordre d'importance (1 pour le plus important)

Improvement of existing operations *Amélioration des exploitations existantes*		Expansion of capacity in present product lines *Expansion de la capacité de production des gammes de produits actuelles*		Establishment of different product lines *Création de gammes de produits différentes*	

Estimate the average number of Canadian jobs that have been or will be created (+), or eliminated (–) in the company(s) for which you are reporting, in each of the following years as a result of the tax measures.
Estimez le nombre moyen d'emplois au Canada qui ont été ou seront créés (+) ou supprimés (–) dans les sociétés au sujet desquelles vous fournissez des renseignements, au cours de chacune des années suivantes comme conséquence des mesures fiscales.

1972	1973	1974	1975

If as a result of the tax measures you have invested or intend to invest in Canada rather than in foreign countries, complete the following:
Si, par suite des mesures fiscales vous avez investi ou comptez investir au Canada plutôt qu'à l'étranger, remplissez la partie suivante:

DESCRIPTION OF INVESTMENT *DESCRIPTION DE L'INVESTISSEMENT*	PROVINCE	VALUE OF INVESTMENT *MONTANT DE L'INVESTISSEMENT*	COMPLETION DATE OF INVESTMENT *DATE D'ACHÈVEMENT DE L'INVESTISSEMENT*	PERMANENT EMPLOYMENT EXPECTED *EMPLOIS PERMANENTS PRÉVUS*

At what level of expenditure is an investment considered to be a major project in your company(s)?
A quel niveau de dépenses votre société considère-t-elle un investissement comme un projet important?

($'000)

What is the average period of time involved in analyzing an investment project prior to taking the decision to proceed with that investment?
En moyenne, combien de temps consacre-ton à l'analyse d'un projet d'investissement avant de décider d'y donner suite?

Major projects (months) – *Pour les projets importants (mois)*	Projects valued at less than major projects (months) *Pour les projets jugés moins importants (mois)*

What is the average period of time that would elapse between taking the decision to proceed with an investment and the completion of that investment?
En moyenne, combien de temps s'écoulerait entre la décision de donner suite à un investissement et la réalisation de cet investissement?

Major projects (months) – *Pour les projets importants (mois)*	Projects valued at less than major projects (months) *Pour les projets jugés moins importants (mois)*

Have the tax measures been or will they be in any way instrumental in affecting your need for sources of funds external to your company(s), particularly equity capital and loan funds?
Les mesures fiscales ont-elles influé ou influeront-elles d'une façon quelconque sur vos besoins de recourir à des sources de financement extérieures à votre société, en particulier le capital-actions et le capital d'emprunt?

☐ INCREASED NEED *BESOINS ACCRUS* ☐ DECREASED NEED *BESOINS RÉDUITS* ☐ NO CHANGE *AUCUN CHANGEMENT*

EXPLAIN – *VEUILLEZ EXPLIQUER*

Have the tax measures affected or will they affect your ability to secure other sources of funds external to your company(s), particularly equity capital and loan funds?
Les mesures fiscales ont-elles influé ou influeront-elles sur votre aptitude à puiser dans d'autres sources de financement extérieures à votre société, en particulier le capital-actions et le capital d'emprunt?

☐ INCREASED ABILITY *APTITUDE ACCRUE* ☐ DECREASED ABILITY *APTITUDE RÉDUITE* ☐ NO CHANGE *AUCUN CHANGEMENT*

EXPLAIN – *VEUILLEZ EXPLIQUER*

What percentage of after tax earnings has been distributed to share holders for the following years?
Quel pourcentage des bénéfices après impôts a été distribué aux actionnaires pour les années suivantes?

1968	1969	1970	1971	1972	1968-72 Annual Average *Moyenne annuelle de 1968-72*
%	%	%	%	%	%

How do you expect the annual average percentage distribution of earnings over the period 1972-75 to compare to the 1968-72 average?
Prévoyez-vous que le pourcentage annuel moyen des bénéfices distribués de 1972 à 1975 sera plus élevé que la moyenne de 1968 à 1972?

☐ INCREASED *ACCRU* ☐ DECREASED *RÉDUIT* ☐ NO CHANGE *AUCUN CHANGEMENT*

EXPLAIN – *VEUILLEZ EXPLIQUER*

Please add any comments, which you consider relevant, on the impact of the tax measures on your company(s).
Veuillez ajouter toute autre observation que vous jugerez utile à la description des répercussions des mesures fiscales sur votre société.

APPENDIX 2

IMPACT OF TAX MEASURES ON MANUFACTURING AND PROCESSING OPERATIONS: SUMMARY OF QUALITATIVE RESPONSES

Considerable effort was made to elicit from respondents the underlying reasons for their quantitative replies to questions. The general instructions which accompanied the questionnaire, and the instructions associated with certain of the specific questions, asked company officials to provide explanatory comments or to otherwise elaborate on their replies. Further and more detailed elaboration on the ways in which corporate officers perceived the measures and their impact on their companies' operations was obtained during the personal interviews. The following tables show the frequency distribution of qualitative reasons or judgments advanced to demonstrate why the measures would or would not affect the operations of those respondents who provided comments.

COMPETITIVE POSITION

TABLE 1A

Reasons Why Tax Measures Will Improve Competitive Position

Reason	Frequency Distribution of Reasons
	%
Facilitate increased investment	35.6
Restraint on prices leading to increased sales	29.5
Improve financial strength	19.9
Reduce costs	9.7
Other or no reason	5.3
	100.0

TABLE 1B

Reasons Why Tax Measures Will Not Improve Competitive Position

Reason	Frequency Distribution of Reasons
	%
Advantages equalized or nullified because measures available to all Canadian competitors (presumes no significant import competition)	23.0
Beneficial effects offset by delay in passing legislation or uncertainty surrounding continuation of tax relief	19.3
Tax measures not significant enough	17.5
Company in tax loss or loss carry forward position	16.4
Too difficult or too early to make judgment	6.7
Tax measures do not apply or apply only to small portion of business	6.7
Other or no reason	10.4
	100.0

TABLE 2A

Reasons Why Tax Measures Will Affect Investment Plans

Reason	Frequency Distribution of Reasons
	%
Investment in Fixed Assets	
To improve efficiency, productivity and volume through plant expansion	34.6
To improve efficiency and productivity through modernization or rationalization	26.4
To introduce new products	17.2
To introduce labour saving machinery or equipment	7.9
Other or no reason	4.7
Investment in Innovative Activities	
To increase expenditure in marketing and/or planning	4.8
To establish or increase R & D and/or engineering expenditures	4.5
	100.0

TABLE 2B

Reasons Why Tax Measures Will Not Affect Investment Plans

Reason	Frequency Distribution of Reasons
	%
Investment plans formulated or investment underway prior to implementation of tax measures	19.1
Factors other than tax changes, (supply, demand, strategic) dominated investment decisions	13.2
Not enough advantage derived from tax measures	12.6
Company will have tax loss or is in tax loss carry forward position	11.5
Delay of legislation and/or uncertainty of legislation discourages investment	10.3
Benefits of measures still being assessed or too early after legislation to quantify	6.8
Business environment does not call for additional investment	5.0
Impossible to determine whether investment proceeded because of tax measures or other positive business conditions	4.1
Other or no reason	17.4
	100.0

PRICES

TABLE 3A

Reasons Why Tax Measures Will Permit Prices to be Reduced or Increases to be Moderated

Reason	Frequency Distribution of Reasons
	%
Measures partially offset escalating costs	55.1
Investment resulting from tax measures will reduce costs or moderate cost increases	24.0
Return on investment or margin targets can be achieved with lower prices or deferral of price increases	8.4
Prices reduced or maintained to improve or maintain market share	5.3
Other or no reason	7.2
	100.0

TABLE 3B

Reasons Why Tax Measures Will Not Permit Prices to be Reduced or Increases to be Moderated

Reason	Frequency Distribution of Reasons
	%
Prices determined by international supply and demand factors or by the cost of materials, etc.	39.7
Tax measures do not offset rapidly rising costs	13.1
Influence of tax measures in relation to sales value is minimal	11.7
Company in loss position	10.6
Company too small in relation to competition to initiate price changes	5.7
Government controls pricing	2.5
Other or no reason	16.7
	100.0

NEED FOR EXTERNAL FUNDS

TABLE 4

Reasons Why Tax Measures Will (Will Not) Affect Need for External Funds

Reason	Frequency Distribution of Reasons
	%
Need Increased	
Internal funds insufficient to finance new or advanced investment projects	53.2
Additional working capital required	37.4
Other or no reason	9.4
	100.0
Need Decreased	
Internal cash flow improved	89.3
Other or no reason	10.7
	100.0
No Change	
Sources already established	48.5
Other or no reason	51.5
	100.0

ABILITY TO RAISE EXTERNAL FUNDS

TABLE 5

Reasons Why Tax Measures Will (Will Not) Affect Ability to Raise External Funds

Reason	Frequency Distribution of Reasons
	%
Ability Improved	
Profitability or cash position improved	61.6
Improved debt-equity position	21.4
Improved ability to obtain funds from parent companies	9.2
Improved debt capacity through expanded operations	7.8
	100.0
No Change	
Credit worthiness already established	40.9
Sufficient funds available	31.6
Tax measures have no impact	25.1
Other or no reason	2.4
	100.0

DISTRIBUTION OF EARNINGS

TABLE 6A

Reasons Why Distributed Earnings Will Increase in 1972–75 Compared to 1968–72

Reason	Frequency Distribution of Reasons
	%
Company maturing and will commence paying dividends	27.6
Company moving out of loss position	21.3
Ownership changed or company maturing and will increase dividend payments	16.5
Other or no reason	34.6
	100.0

TABLE 6B

Reasons Why Distributed Earnings Will Decrease in 1972–75 Compared to 1968–72

Reason	Frequency Distribution of Reasons
	%
Growth, expansion or other capital requirements will be financed to a higher extent from earnings	39.6
Company maintained dividends during a period of deteriorating earnings; as earnings now improve, dividends as a percentage will decrease	20.8
Change in company policy or ownership leading to distribution of less earnings	12.3
Other or no reason	27.3
	100.0

TABLE 6C

Reasons Why Distributed Earnings Will Remain Unchanged in 1972–75 Compared to 1968–72

Reason	Frequency Distribution of Reasons
	%
Company policy to reinvest all earnings	23.8
Company policy to distribute a target percentage of earnings	17.6
Continuing rapid growth demands ploughing back all earnings	16.2
Retaining loss position	11.8
Other or no reason	30.6
	100.0