CANADA

Department of Finance
Ministère des Finances

INTRODUCTION TO *THE BUDGET MEASURES and TAX REFORM LEGISLATION*

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TAX REFORM HIGHLIGHTS

Highlights of the tax reform legislation intended to come into effect in 1972:

Personal Income

* Basic exemptions increased: single, to $1,500 from $1,000; married, to $2,850 from $2,000.
* On wage or salary income, all married-status taxpayers pay less in 1972 than at present; single-status taxpayers pay less on employment income below $8,000.
* Initial 17-per-cent rate of federal tax will be reduced progressively to 6 per cent by 1976.
* Child care expenses deductible up to $500 per child under 14, maximum of $2,000 per family.
* Special exemption of $650 for individuals age 65 and over. Replaces exemption of $500 at age 70.
* Employment expenses deductible: 3 per cent of employment income up to $150 a year.
* Moving expenses deductible for taxpayers changing jobs.
* Employer-paid living expenses at distant work sites made tax-free.
* More items included in income.
* Calculation of tax simplified.

* Limits raised on contributions to pension plans and other retirement plans.
  Limit on total charitable donations raised to 20 per cent of income from 10 per cent.

* Two income-averaging plans available.

Capital Gains

* Half of capital gain taxable at taxpayer's personal rate.
  Half of capital loss deductible.

* Five-year revaluation dropped. Accrued capital gains taxed at death.

* Federal gift and estate taxes abolished on December 31, 1971.

* Taxpayer's home and one acre of land completely exempt from capital gains tax.

* Personal-use property exempt unless selling price is more than $1,000.

* Special rules for corporate reorganizations.

Corporations and Shareholders

* General tax rate for corporations is 50 per cent in 1972, declining one percentage point annually to 46 per cent in 1976.

* Tax rate of 25 per cent on first $50,000 of business income available to Canadian-controlled private corporations to assist growth.

* Dividend tax credit increased to 33 1/3 per cent and included in income.

* Dividends received by corporations generally tax-exempt. Refund of taxes available on investment income and taxable dividends of private corporations.

Mining and Petroleum

* Automatic percentage depletion continues to 1976, then replaced by earned depletion.

* Three-year tax exemption for new mines to be withdrawn after 1973, replaced by fast write-off.

* Federal tax on mining profits to be reduced to 25 per cent from 40 per cent in 1977 to allow for provincial mining taxes.

Business and Property Income

* Interest paid by corporations on money borrowed to buy shares in other corporations made deductible.

* Reasonable entertainment and convention expenses continue to be deductible, with geographical limitation on conventions.
  Club fees, costs of yachts, camps, lodges not deductible.

* Taxpayers in the professions will bring amounts into income as fees are billed.

International Income

* Tax treaty expansion to seek competitive tax treatment for Canadians investing abroad.

* Witholding tax on investment income paid to non-residents remains at 15 per cent until end of 1975, then increased to 25 per cent in non-treaty countries. Pensions subject to withholding tax after January 1, 1972 but all Old Age Security pensions and $1,290 of Canada and Quebec Pension Plan benefits exempt.

* Tax imposed on income diverted to tax havens.

Tax Reform Count

If the present system and rates of tax remained in effect in 1972, Canada would have about 9,000,000 taxpayers. Tax reform will give these results for them:

All personal income taxes eliminated for	1,000,000
Taxes reduced for	4,700,000
Taxes changed by less than 1 per cent for	2,000,000
Taxes increased for	1,300,000

NOTES ON PERSONAL INCOME

Child Care Expenses

Normally, the mother will claim the child care expense deduction on her income tax return. If the mother is deceased, separated or incapacitated, the father may make the claim. The deduction is limited to two-thirds of the earned income of the parent making the claim.

Qualifying expenses include baby sitting, day nursery care and up to $15 a week (within the annual limits) towards lodging paid at boarding schools and camps.

Expenses of caring for a child over 14 will qualify if the child is a dependant because of mental or physical infirmity. A taxpayer may not claim amounts paid to a dependant under 21 years of age.

Deduction for child care expenses will be made from salary, wages, scholarships or income from carrying on a business. It may not be made from investment income.

Employment Expenses

This new deduction will place employees on a more even footing with businessmen and professionals who have long been able to deduct expenses directly related to earning income. It will help cover the costs of tools, special clothes and other expenses of employees.

The deduction is applied against wages, salary and taxable benefits received from an employer, and adult training allowances. No receipts are required.

It may not be applied against income from a pension plan, retirement plan, remuneration as a corporation director, unemployment or insurance benefits. An individual who holds an elected office will be able to take the deduction only to the extent that it exceeds any tax-free expense allowance he may receive.

A salesman who deducts expenses incurred in earning commissions may not also deduct employment expenses.

Moving Expenses

Moving expenses are deductible in the year of the move, or the next year. Moves into or out of Canada do not qualify. However, foreign students who come to Canada on a scholarship or grant may deduct moving expenses into Canada from their award, as may Canadians who go abroad to study under a scholarship from a Canadian source.

Deductible expenses include transportation of a taxpayer and members of his household, reasonable board and lodging while travelling, transportation and storage costs of household effects, and the costs of terminating a lease or selling a house.

Medical Expenses

Medical expenses for which an individual has been reimbursed under a plan may not be deducted. However, premiums paid to non-governmental medical or hospital plans will be classified as medical expenses.

The definition of medical expenses is expanded to include amounts paid to a school which cares for mentally or physically handicapped persons. Appliances and equipment prescribed by a doctor and specified in tax regulations will also be included.

The existing $500 deduction for persons who are blind or confined to bed or wheel chair on a full-time basis will be increased to $650.

Charitable Donations

Donations to registered Canadian amateur associations may now be grouped with charitable gifts and are subject to the over-all limit of 20 per cent. To qualify, an athletic association must be non-profit and be registered by the Minister of National Revenue. It must have as its primary purpose the promotion of amateur athletics on a nationwide basis.

VALUATION DAY

Safeguards are necessary to ensure that the taxation of capital gains is not retroactive. It would be obviously unfair on the first day of a new tax to tax a gain on an asset which had been held for the past 50 years.

To prevent such things happening, capital gains or losses of assets which are now held by taxpayers will be measured against their value on "Valuation Day" which will be chosen near the start of the new system on January 1, 1972.

Valuation Day will ensure that the capital gains tax is not retroactive by establishing a fixed point of reference. In addition, there is a special rule which protects the taxpayer if the value of an asset on Valuation Day is lower than its cost price. To avoid manipulation, Valuation Day will be announced after it has passed.

The advent of Valuation Day does not mean that a taxpayer must immediately have <u>all</u> his assets valued. Some assets, such as homes, are not taxable at all. Other assets, such as jewellery, would be taxable only if they were sold for more than $1,000.

Capital gains tax is levied only when an asset is sold or given away or at a taxpayer's death. Therefore, if a taxpayer does not anticipate disposing of an asset, there is little need for an immediate valuation. This may be more conveniently done in the weeks that follow.

A number of reliable indicators already exist which will be useful in establishing the value of assets. Shares, for instance, are valued daily by stock markets; a wide variety of goods are valued by catalogue; real estate is valued through advertised sales and offerings.

No doubt various financial services will be establishing their own banks of information regarding prices on or around Valuation Day for the future use of clients.

There will, of course, be no difficulty in establishing the gain or loss on an asset purchased after the start of the new system January 1, 1972. From that point on, the gain or loss will simply be the difference between the cost price and the selling price.

SINGLE TAXPAYER – NO DEPENDANTS

Income	Present Tax (Eligible for 3% Employment Expense Deduction)	New Bill (Eligible for 3% Employment Expense Deduction)	Change from Present Tax (Eligible for 3% Employment Expense Deduction)	Present Tax (Not Eligible for 3% Employment Expense Deduction)	New Bill (Not Eligible for 3% Employment Expense Deduction)	Change from Present Tax (Not Eligible for 3% Employment Expense Deduction)
$	$	$	$	$	$	$
1,200	15	–	– 15	15	–	– 15
1,400	44	–	– 44	44	–	– 44
1,600	74	–	– 74	74	–	– 74
1,800	104	32	– 72	104	44	– 60
2,000	133	75	– 58	133	88	– 45
2,500	230	187	– 43	230	204	– 26
3,000	331	304	– 27	331	326	– 5
4,000	563	547	– 16	563	579	+ 16
5,000	817	803	– 14	817	844	+ 27
6,000	1,100	1,076	– 24	1,100	1,117	+ 17
7,000	1,387	1,355	– 32	1,387	1,400	+ 13
8,000	1,657	1,654	– 3	1,657	1,699	+ 42
9,000	1,924	1,960	+ 36	1,924	2,009	+ 85
10,000	2,229	2,285	+ 56	2,229	2,334	+ 105
11,000	2,538	2,616	+ 78	2,538	2,669	+ 131
12,000	2,894	2,967	+ 73	2,894	3,020	+ 126
13,000	3,254	3,331	+ 77	3,254	3,392	+ 138
14,000	3,661	3,734	+ 73	3,661	3,795	+ 134
15,000	4,073	4,137	+ 64	4,073	4,198	+ 125
20,000	6,334	6,373	+ 39	6,334	6,442	+ 108
25,000	8,651	8,648	– 3	8,651	8,717	+ 66
30,000	11,170	11,144	– 26	11,170	11,220	+ 50
50,000	21,928	21,765	– 163	21,928	21,849	– 79
75,000	36,806	36,429	– 377	36,806	36,521	– 285
100,000	52,715	51,704	–1,011	52,715	51,796	– 919

The present tax is current tax including old age security tax, social development tax and the 3 per cent surtax, plus provincial tax at 28 per cent of basic tax.

Tax under the new bill is federal tax for 1972 using a new rate schedule and a basic exemption for single taxpayers of $1,500, plus provincial tax at 30 per cent of federal tax.

No account has been taken of other proposed adjustments to income such as taxation of capital gains.

In all cases it is assumed that taxpayers take the optional standard deduction of $100.

Taxpayers are assumed to be under age 65.

MARRIED TAXPAYER – NO DEPENDANTS

	Eligible for 3% Employment Expense Deduction			Not Eligible for 3% Employment Expense Deduction		
Income	*Present Tax*	*New Bill*	*Change from Present Tax*	*Present Tax*	*New Bill*	*Change from Present Tax*
$	$	$	$	$	$	$
2,200	15	–	– **15**	15	–	– **15**
2,400	44	–	– **44**	44	–	– **44**
2,600	74	–	– **74**	74	–	– **74**
2,800	104	–	– **104**	104	–	– **104**
3,000	133	–	– **133**	133	11	– **122**
3,500	230	98	– **132**	230	122	– **108**
4,000	331	211	– **120**	331	240	– **91**
5,000	563	450	– **113**	563	488	– **75**
6,000	817	709	– **108**	817	748	– **69**
7,000	1,100	980	– **120**	1,100	1,021	– **79**
8,000	1,387	1,253	– **134**	1,387	1,295	– **92**
9,000	1,657	1,550	– **107**	1,657	1,594	– **63**
10,000	1,924	1,849	– **75**	1,924	1,895	– **29**
11,000	2,229	2,171	– **58**	2,229	2,220	– **9**
12,000	2,538	2,496	– **42**	2,538	2,546	+ **8**
13,000	2,894	2,844	– **50**	2,894	2,897	+ **3**
14,000	3,254	3,195	– **59**	3,254	3,251	– **3**
15,000	3,661	3,593	– **68**	3,661	3,654	– **7**
20,000	5,870	5,759	– **111**	5,870	5,827	– **43**
25,000	8,188	8,034	– **154**	8,188	8,102	– **86**
30,000	10,655	10,460	– **195**	10,655	10,536	– **119**
50,000	21,361	21,011	– **350**	21,361	21,094	– **267**
75,000	36,188	35,604	– **584**	36,188	35,696	– **492**
100,000	52,045	50,879	**–1,166**	52,045	50,971	**–1,074**

The present tax is current tax including old age security tax, social development tax and the 3 per cent surtax, plus provincial tax at 28 per cent of basic tax.

Tax under the new bill is federal tax for 1972 using a new rate schedule and a basic exemption for married taxpayers of $2,850, plus provincial tax at 30 per cent of federal tax.

No account has been taken of other proposed adjustments to income such as taxation of capital gains.

In all cases it is assumed that taxpayers take the optional standard deduction of $100.

Taxpayers are assumed to be under age 65.

MARRIED TAXPAYER – TWO DEPENDENT CHILDREN UNDER AGE 16

All Income from Salary or Wages

Eligible for 3% Employment Expense Deduction

Income	*Present Tax*	*New Bill*	*Change from Present Tax*
$	$	$	$
2,800	15	–	– 15
3,000	44	–	– 44
3,500	118	–	– 118
4,000	210	73	– 137
5,000	422	302	– 120
6,000	663	553	– 110
7,000	928	816	– 112
8,000	1,215	1,089	– 126
9,000	1,496	1,370	– 126
10,000	1,764	1,669	– 95
11,000	2,044	1,976	– 68
12,000	2,353	2,301	– 52
13,000	2,677	2,634	– 43
14,000	3,038	2,985	– 53
15,000	3,414	3,351	– 63
20,000	5,592	5,486	– 106
25,000	7,910	7,761	– 149
30,000	10,346	10,156	– 190
50,000	21,022	20,675	– 347
75,000	35,818	35,238	– 580
100,000	51,643	50,513	–1,130

The present tax is current tax including old age security tax, social development tax, and the 3 per cent surtax, plus provincial tax at 28 per cent of basic tax.

Tax under the new bill is federal tax for 1972 using a new rate schedule and a basic exemption for married taxpayers of $2,850, plus provincial tax at 30 per cent of federal tax.

In calculating tax under the new bill taxpayers receive the employment expense deduction of 3 per cent, maximum $150. No account has been taken of other proposed adjustments to income such as taxation of capital gains.

In all cases it is assumed that taxpayers take the optional standard deduction of $100.

Taxpayers are assumed to be under age 65.

SINGLE TAXPAYER–AGE 65 TO 69 | SINGLE TAXPAYER–AGE 70 OR OVER

No Dependants, Not Eligible for 3% Employment Expense Deduction

Income Plus G.I.S.	*Present Tax*	*New Bill*	*Change from Present Tax*	*Present Tax*	*New Bill*	*Change from Present Tax*
$	$	$	$	$	$	$
1,600 + 340	124	–	– **124**	50	–	– **50**
1,800 + 240	140	–	– **140**	65	–	– **65**
2,000 + 144	159	–	– **159**	80	–	– **80**
2,500	230	55	– **175**	133	55	– **78**
3,000	331	169	– **162**	230	169	– **61**
4,000	563	413	– **150**	446	413	– **33**
5,000	817	670	– **147**	689	670	– **19**
6,000	1,100	939	– **161**	957	939	– **18**
7,000	1,387	1,212	– **175**	1,244	1,212	– **32**
8,000	1,657	1,505	– **152**	1,523	1,505	– **18**
9,000	1,924	1,804	– **120**	1,790	1,804	+ **14**
10,000	2,229	2,122	– **107**	2,075	2,122	+ **47**
11,000	2,538	2,447	– **91**	2,384	2,447	+ **63**
12,000	2,894	2,792	– **102**	2,713	2,792	+ **79**
13,000	3,254	3,143	– **111**	3,074	3,143	+ **69**
14,000	3,661	3,533	– **128**	3,455	3,533	+ **78**
15,000	4,073	3,936	– **137**	3,867	3,936	+ **69**
20,000	6,334	6,146	– **188**	6,102	6,146	+ **44**
25,000	8,651	8,421	– **230**	8,420	8,421	+ **1**
30,000	11,170	10,891	– **279**	10,912	10,891	– **21**
50,000	21,928	21,486	– **442**	21,645	21,486	**–159**
75,000	36,806	36,124	– **682**	36,497	36,124	**–373**
100,000	52,715	51,399	**–1,316**	52,380	51,399	**–981**

The amount of guaranteed income supplement payable to single persons with low incomes is shown in addition to other income. The present tax is calculated on the combined amounts. Under the new bill the guaranteed supplement will not be subject to tax.

The present tax is current tax including old age security tax, social development tax and the 3 per cent surtax, plus provincial tax at 28 per cent of basic tax.

Tax under the new bill is federal tax for 1972 using a new rate schedule and a basic exemption for single taxpayers of $1,500 plus a special exemption of $650. It includes provincial tax at 30 per cent of federal tax.

In calculating tax under the new bill it is assumed that taxpayers do not have any income from salary or wages. No account has been taken of the tax credit for dividends or new adjustments to income such as the taxation of capital gains.

In all cases it is assumed that taxpayers take the optional standard deduction of $100.

MARRIED TAXPAYER–AGE 65 TO 69 | MARRIED TAXPAYER–AGE 70 OR OVER

No Dependants, Not Eligible for 3% Employment Expense Deduction

Income Plus G.I.S.	*Present Tax*	*New Bill*	*Change from Present Tax*	*Present Tax*	*New Bill*	*Change from Present Tax*
$	$	$	$	$	$	$
2,200 + 600	104	–	– **104**	30	–	– **30**
2,400 + 540	124	–	– **124**	50	–	– **50**
2,600 + 492	149	–	– **149**	73	–	– **73**
2,800 + 444	179	–	– **179**	95	–	– **95**
3,000 + 396	209	–	– **209**	118	–	– **118**
3,500 + 276	285	–	– **285**	185	–	– **185**
4,000 + 144	362	88	– **274**	259	88	– **171**
5,000	563	326	– **237**	446	326	– **120**
6,000	817	578	– **239**	689	578	– **111**
7,000	1,100	844	– **256**	957	844	– **113**
8,000	1,387	1,117	– **270**	1,244	1,117	– **127**
9,000	1,657	1,400	– **257**	1,523	1,400	– **123**
10,000	1,924	1,699	– **225**	1,790	1,699	– **91**
11,000	2,229	2,008	– **221**	2,075	2,008	– **67**
12,000	2,538	2,334	– **204**	2,384	2,334	– **50**
13,000	2,894	2,669	– **225**	2,713	2,669	– **44**
14,000	3,254	3,020	– **234**	3,074	3,020	– **54**
15,000	3,661	3,392	– **269**	3,455	3,392	– **63**
20,000	5,870	5,532	– **338**	5,638	5,532	– **106**
25,000	8,188	7,806	– **382**	7,956	7,806	– **150**
30,000	10,655	10,206	– **449**	10,397	10,206	– **191**
50,000	21,361	20,731	– **630**	21,078	20,731	– **347**
75,000	36,188	35,299	– **889**	35,879	35,299	– **580**
100,000	52,045	50,574	**–1,471**	51,710	50,574	**–1,136**

The amount of guaranteed income supplement payable to a married person with a low income whose spouse is not eligible for the old age pension or guaranteed supplement is shown in addition to other income. The present tax is calculated on the combined amounts. Under the new bill the guaranteed supplement will not be subject to tax.

The present tax is current tax including old age security tax, social development tax and the 3 per cent surtax, plus provincial tax at 28 per cent of basic tax.

Tax under the new bill is federal tax for 1972 using a new rate schedule and a basic exemption for married taxpayers of $2,850 plus a special exemption of $650. It includes provincial tax at 30 per cent of federal tax.

In calculating tax under the new bill it is assumed that taxpayers do not have any income from salary or wages. No account has been taken of the tax credit for dividends or new adjustments to income such as the taxation of capital gains.

In all cases it is assumed that taxpayers take the optional standard deduction of $100.

PERSONAL INCOME

ITEM	OLD LAW	NEW BILL
Single taxpayer – basic exemption	$1,000	$1,500
Married taxpayer – basic exemption	$2,000	$2,850
Spouse's income	Spouse's exemption of $1,000 reduced $1 for every $1 that income exceeds $250.	Spouse's exemption of $1,350 reduced $1 for every $1 that income exceeds $250.
Married exemption for supporting dependant	$2,000 when unmarried taxpayer supports dependent child or dependent relative.	$2,850 – Dependant must live with taxpayer. Exemption reduced where dependant has income over $250.
Children under 16	Parent deducts $300. If child's income is over $950, excess may be added to parent's tax (notch provision).	Parent deducts $300 which is reduced $1 for every $2 of child's income over $1,000.
Children over 16	Parent deducts $550. If child's income is over $950, excess may be added to parent's tax (notch provision).	Parent deducts $550 which is reduced $1 for every $1 of child's income over $1,050.
Other dependants	Taxpayer deducts $300 or $550, depending on dependant's age. If dependant's income is over $950, excess may be added to taxpayer's tax (notch provision).	Taxpayer deducts $300 or $550 depending on age of dependant, and reduces exemption as above if dependant's income exceeds $1,000 or $1,050.
Unmarried clergymen	Deduct $1,000 if fulltime servant employed in dwelling.	No deduction.
Elderly taxpayers	Additional $500 exemption if age 70 or over.	Exemption increased to $650 and extended to taxpayers age 65 or over. Guaranteed income supplement made exempt.
Special deduction	Individuals who are blind or are confined to bed or wheel chair are allowed a special deduction of $500 a year.	Special deduction increased to $650 a year.
Child care expenses	No deductions.	Up to $500 per child under 14 or over 14 and infirm with a limit of $2,000 per family. Deductions may not exceed 2/3 of income of parent claiming deduction. Receipts needed. Deducted by mother unless unable to work. Payments to dependants or to relatives under 21 do not qualify.
Employment expenses	Very limited; e.g. union dues.	3% of gross employment income up to $150 deductible.
Expenses when working away from home	Amounts received from employer by construction workers for board, lodging and transportation at distant sites not taxable.	Old law extended to all employees.

PERSONAL INCOME

ITEM	OLD LAW	NEW BILL
Moving expenses	Employer may deduct as business expense. No deduction by employee.	Employees and self-employed may deduct from income from new job with one year carry-over. Must move 25 miles closer to job. Special rules for students.
Medical expenses	Allowable expenses deductible to the extent they exceed 3% of net income.	List of allowable expenses increased to include training institutions for disabled persons and prescribed appliances and equipment.
	Insurance premiums not deductible.	Premiums to plans other than government are classed as medical expenses.
	Expenses reimbursed by government plans not deductible.	Expenses for which taxpayer has been reimbursed under a plan not classed as medical expenses.
	Employers' contributions to public hospital plans and some medical plans result in taxable benefit; contributions to private plans do not.	Employers' contributions to all government plans result in taxable benefit.
Unemployment insurance	Contributions not deductible; benefits not taxable.	Contributions deductible; benefits taxable.
Club fees, convention expenses, entertainment costs	Generally deductible by persons carrying on a business or profession.	Yachts, lodges and club dues disallowed; geographical restrictions placed on conventions.
Charitable donations	Donations to registered charitable institutions limited to 10% of net income.	Limit on donations 20% of net income. Donations to national amateur athletic associations qualify.
	Donations to federal and provincial governments deductible without limit.	Same provisions for donations to governments.
Pension plans, registered retirement savings plans and deferred profit-sharing plans	Limit on deductible contributions of $1,500 for pension plans and profit-sharing plans and $2,500 for retirement savings plans.	Limits increased to $2,500 for pension plans and profit-sharing plans and to $4,000 for retirement savings plans.
	Foreign-source income of pension plans and profit-sharing plans may not exceed 10% to qualify for tax-free status.	90% of assets of all plans must be Canadian. Penalties for having more than 10% foreign assets; not necessary to dispose of present excess foreign assets.
	Some restrictions on investments of pension plans and profit-sharing plans. No restrictions on investments of retirement savings plans.	Investments of retirement savings plans to be restricted on same basis as profit-sharing plans.
	Special rules for taxing lump-sum withdrawals from pension plans and profit-sharing plans.	Withdrawals taxed at ordinary rates (but may average or defer tax under new rules). Special rule for present accumulations in pension and profit-sharing plans.

PERSONAL INCOME

ITEM	OLD LAW	NEW BILL
Fellowships, scholarships, bursaries	Not taxable unless related to employment.	Taxable with an annual exemption of $500.
Training allowances	Not taxable.	Taxable except for living away from home allowance.
Research grants	Not taxable unless related to employment.	Taxable with deduction for research expenditures.
Benefit from personal use of automobile provided by employer or business	Taxed in some circumstances.	Minimum value set for personal use.
Income maintenance insurance	Not taxable if received from an insurance company.	Taxable if employer contributes to premiums, but with a deduction from benefits for premiums paid since 1967.
Income averaging	Special rules for special types of receipts. Five-year block averaging for farmers and fishermen.	General averaging for all taxpayers whose income in a year exceeds four-year average by 20% and immediately preceding year by 10%. Income of each preceding year deemed to be not less than $1,600. Also special forward averaging for certain receipts through the acquisition of an income-averaging annuity. Averaging for farmers and fishermen will continue as in the old law. Present special rules remain for three or five years.
Servicemen	Special rules – taxed on a monthly basis.	Treated as ordinary taxpayers.
Rate schedule	Rates (including provincial tax at 28%, old age security tax and other special taxes) from 14.8% to 82.4%. Surtax on foreign investment income – 4%.	Rates (including provincial tax at 30%) from 22.1% to 61.1% in 1972. In years 1973-76, federal rate of 17% on first $500 reduced in steps to 6%. Surtax on foreign investment income eliminated.

CAPITAL GAINS

ITEM	OLD LAW	NEW BILL
General rule	Not taxed.	One-half capital gains to be included in income. One-half losses deductible from gains. Losses not deducted in the year are carried back one year and forward indefinitely. Individuals may also deduct up to $1,000 of losses each year from other income.
Valuation Day		General rule: cost basis of asset to be higher of original cost or fair market value on V-Day in determining gains and lower of cost or market in determining losses. For bonds, etc., cost in these rules is amortized cost. Taxpayer may elect to use fair market value on V-Day for all assets.
Homes		No tax on sale of principal residence and one acre of land or additional land surrounding residence if proven necessary to enjoyment as residence. Farmer has alternative to deduct $1,000 per year on home and farm.
Works of art, jewellery, etc.		$1,000 minimum cost per item or set of items. Losses allowed against gains from similar assets and excess carried back one and forward five years with same restriction.
Other personal property		$1,000 minimum cost per item, or set of items. Losses not allowed.
Shares		Same as general rule.
Bonds, mortgages, agreements for sale, etc.		Same as general rule. Deep discounts half-deductible to issuer.
Windfall gains	Capital gains from gambling, sweepstakes and the like not taxable; losses not deductible.	No change.
Rollovers (carry-over of basis and deferral of gain)		Rollovers permitted for: – expropriation and destruction – transfers to an 80%-owned corporation – liquidation of a wholly-owned subsidiary – certain amalgamations and corporate reorganizations – transfers to a partnership – certain dissolutions of partnerships.
Gifts		No deemed realization for gifts to spouse; on subsequent sale, capital gains tax paid by donor. Deemed realization at time of other gifts.

CAPITAL GAINS

ITEM	OLD LAW	NEW BILL
Bequests		No deemed realization for bequests to spouse. Deemed realization at death for other bequests. Special rule for depreciable property.
Arrivals and departures		Taxpayers moving to Canada will value their assets at that time for the purpose of calculating subsequent gains or losses. On leaving Canada, deemed realization except for assets on which a non-resident is taxable by Canada. First $5,000 exempt. Alternatively, taxpayer may elect to be taxed as if resident of Canada in year of actual disposal, provided reasonable security given at time of departure.
Averaging		Capital gains subject to general averaging and forward averaging provisions.
Estate taxes	No tax on first $50,000. Maximum rate of 50% reached at $300,000. No tax on transfers to spouse.	Federal estate and gift taxes eliminated.

CORPORATIONS AND SHAREHOLDERS

ITEM	OLD LAW	NEW BILL
Rates of tax	21% on first $35,000 and 50% on balance, (plus temporary 3% surtax).	General rate 50% in 1972 reduced by one percentage point annually to 46% in 1976. If eligible for small business incentive, 25% on first $50,000 of business income (see below).
Ordinary dividends paid by Canadian corporations to resident individuals	Individual shareholders can deduct a tax credit of 20% of dividends.	Dividend tax credit increased to 33 1/3% and included in income.
Small business incentive	Rate of 21% on first $35,000 available to all corporations.	Rate of 25% on the first $50,000 of business income available only to Canadian-controlled private corporations. Low rate not available to the extent funds used for non-business purposes and low rate ends once $400,000 of before-tax earnings have been accumulated after 1971.

MINING AND PETROLEUM

New mines		
Three-year tax exemption	Income exempt for first three years.	Existing exemption limited to income earned before Jan. 1, 1974.
Accelerated depreciation	No provision.	Assets related to a new mine (e.g. mine buildings, machinery and equipment, a refinery, and townsite facilities) may be included in a separate asset class and an annual deduction made equal to the greater of: – income from the new mine, or – 30% of unclaimed balance. This accelerated depreciation also applies to most assets related to the expansion of an existing mine where the milling capacity is increased by at least 25%.
Shareholders' depletion	Shareholders of certain mining and petroleum companies are allowed to exclude from income 10%, 15% or 20% of dividends received.	Repealed.
Prospectors and Grubstakers	Proceeds on sale of mining properties are exempt from tax.	Exemption from tax is withdrawn. Where property is sold to a corporation in exchange for shares of that corporation, prospectors or grubstakers may elect to pay no tax at that time; they are deemed to have a zero cost basis for the shares and to pay capital gains tax on the proceeds of disposal. The corporation it then deemed to acquire property at no cost.

BUSINESS AND PROPERTY INCOME

ITEM	OLD LAW	NEW BILL
Interest on money borrowed to buy shares		
Corporations	Corporations are not allowed to deduct interest on money borrowed to buy shares in other corporations.	Corporations will be allowed full deduction for this interest.
Individuals	Individuals are allowed to deduct interest on money borrowed to buy shares in corporations.	Full deduction of interest is continued for individuals.
Entertainment and related expenses	Deduction allowed for reasonable entertainment expenses, membership costs and similar expenses provided they are incurred to earn income.	No deduction for social and recreational club fees, or costs of yachts, fishing camps and other recreational facilities. Deduction for entertainment and conventions similar to old law, except for geographical restriction on conventions.
Farmers and fishermen		
Cash basis	Farmers and fishermen are entitled to compute their income on a cash basis.	No change.
Averaging	Farmers and fishermen are entitled to special income-averaging provisions.	No change.
Basic herd	Farmers are entitled to classify a herd of animals as a capital asset, "basic herd", and gains and losses are treated as capital gains and capital losses and are therefore tax-exempt.	Farmers will have an opportunity to establish a basic herd as at December 31, 1971. Basic herds will be valued on V-Day and any proceeds of disposal up to this value will be exempt from tax. Proceeds in excess of this value will be treated as farming income and eligible for the special forward averaging.
Straight-line depreciation	Farmers and fishermen may use straight-line depreciation instead of diminishing balance depreciation and thereby avoid recaptured depreciation. Gains on disposal of depreciable assets are treated as capital gains.	Straight-line depreciation phased out.
Hobby farmers	A taxpayer whose principal business is not farming may deduct only $5,000 of farming loss annually from other income.	Similar to old law except that property taxes and interest which are not allowed as operating losses can reduce subsequent capital gains on sale of farm, but would not be allowed to create a capital loss.

1971 BUDGET MEASURES AND ECONOMIC REVIEW

To reinforce the expansion of the economy now underway, the budget proposes the following 1971 tax and tariff changes:

* Removal of the 3-per-cent surtax on personal and corporate income taxes effective July 1, 1971, at a cost of $130 million for the balance of the calendar year.

* Changes effective July 1 in lowest tax brackets to exempt taxpayers with less than $500 of taxable income.

* Exemption of Guaranteed Income Supplement from taxation retroactive to January 1, 1971.

* Low-bracket changes and GIS exemption end income taxes for more than 750,000 effective July 1.

* Removal of 12-per-cent sales tax on margarine, effective immediately, at a cost of $7 million in a full year.

* Removal of 12-per-cent sales tax on all anti-pollution equipment used in production, effective immediately, at a cost of around $8 million in a full year.

* Abolition immediately of 15-per-cent excise tax on television, radio and hi-fi sets, their components and other electronic equipment, at a full-year cost of about $40 million.

* Duty on petroleum feedstocks of 3/4 cent per gallon under British Preferential Tariff and 1 cent per gallon under Most-Favoured-Nation Tariff reduced to 1/3 cent per gallon to aid Canadian petrochemical industry.

* Increase in tariff on polyethylene resins from 7 1/2 to 10 per cent, with corresponding increases for further processed forms of these resins, to assist Canadian plastics industry.

* Duty-free entry of production machinery not available in Canada and considered to be in the public interest extended to cover sawmill and logging machinery for the benefit of the Canadian forest industry.

* Suspension for two-year period of 1/3 cent per gallon duty on heavy fuel oils to help offset recent substantial price increases incurred by pulp and paper producers and power utilities, the saving for the pulp and paper industry alone amounting to over $3.5 million.

Revenues, Expenditures and Cash Requirements

The budget deficit for 1970-71 was just under $420 million, representing a swing of $810 million from the surplus of approximately $390 million in 1969-70. Non-budgetary cash requirements rose by $550 million, with the result that total cash requirements for 1970-71 increased by $1,360 million over the previous year, not including funds required to finance foreign exchange transactions.

For 1971-72, budgetary revenues after tax changes are estimated at approximately $13,660 million and expenditures at $14,410 million, leaving a budget deficit of $750 million.

Net non-budgetary requirements are forecast at $1,680 million not including foreign exchange transactions, and total cash requirements for 1971-72 are estimated to be $2,430 million.

Economic Background to Budget

The Minister said his view of the advance of the economy in the second half of 1971 is even stronger than it was at the time of his budget last December. He said he expects that the gross national product for the balance of this year will be 9 per cent or more above the same period last year.

"The Canadian economy last autumn marked a turning point from declining to expanding rates of growth in demand, output and employment. I am confident that as we move on through the second half of 1971 and into 1972, the performance of the economy will be strong and gaining momentum."

Total domestic demand increased in the first quarter of 1971 at the very high annual rate of 8 per cent, boosted particularly by high levels of expenditures for housing and consumer durables and by all levels of government.

Business capital investment continued to be the weakest element in the economy. But the stage has been set for an upturn by the expansion underway in demand for goods and services, the removal of uncertainty associated with tax reform, and the improvement in profits during the first quarter of 1971.

Consumer spending on goods and services other than durables has been relatively sluggish to date in 1971. But high rates of personal savings, the ready availability of consumer credit and the growth of income produced by an expanding economy will all help to generate accelerating consumer expenditures.

More recent statistics confirm the accelerating expandion of the economy. Retail sales increased substantially in April. New orders received by manufacturers and shipments moved ahead vigorously in April following some hesitation in March. The value of non-residential building permits issued for the first four months of 1971 was up 5 1/2 per cent over the total for the same period last year. On a seasonally-adjusted basis, exports in May were up to 5 per cent over the previous month and 4.7 per cent over the very high level in May, 1970.

Canada had a record merchandise trade surplus of $3 billion during 1970 and this strong merchandise trade position was maintained during the first quarter of 1971 despite a rise in imports. The budget expressed concern about the appreciation of the value of the Canadian dollar that resulted from Canada's strong balance of payments position and welcomed the recent decline in the exchange rate.

Employment, which grew by 140,000 jobs last spring and summer, grew by 180,000 in the fall and winter. This increase was not sufficient to bring the unemployment rate down far enough.

Canada had a better price performance record than any other industrial nation in 1970. While the decline in food prices that occurred last year was partially reversed in the early months of 1971, the rate of increase in other consumer goods and services continued to moderate.

There has been some slowing down in the high rate of cost increases, which have also been offset to some extent by rising productivity.

Federal Financial Assistance to the Provinces

More than $4 billion of funds raised by the federal government during the current fiscal year will be made available to the provinces and municipalities to support their services. This represents 31 per cent of total federal budgetary resources, compared to less than 23 per cent five years ago. Over $1 billion will be paid to the provinces in the form of equalization grants during the current fiscal year, compared to the total of $370 million five years ago.

1971 Changes in Income Taxes

Withdrawal of surtaxes

The surtaxes of 3 per cent on personal and corporation income taxes will end July 1, 1971, six months ahead of their scheduled expiry. The revenue loss will total $90 million for the surtax on individuals and $40 million for the surtax on corporations.

The surtax on individuals is 3 per cent of basic tax in excess of $200. The surtax otherwise payable in 1971 will be cut in half by its withdrawal at mid-year.

GIS exemption

Payments under the Guaranteed Income Supplement may total up to $55 per month for single pensioners and up to $95 per month for husband and wife, depending on other income.

They are subject to tax if the total income of a pensioner including the GIS payments exceeds his exemptions and standard deductions.

Effective January 1, 1971, the payments will not be included in the taxable income of recipients. They will, however, be taken into account in determining the pensioner's income if he is claimed as a dependant and supported by another taxpayer.

Cost of the change is estimated at $10 million in 1971.

Low-bracket changes

Taxpayers with less than $500 of taxable income will be taken off the rolls effective July 1. This will be accomplished by reducing the 11-per-cent federal rate of tax on taxable income between $0 and $500. Rates on taxable income between $500 and

$3,000 will be adjusted so that the benefits of changes are effectively directed only to taxpayers with taxable incomes below $3,000.

In terms of deductions at source, these are the effects:

Taxable Income	Tax for First Half 1971	Tax for Second Half 1971
$ 500	$ 37	$ 0
$1,000	$ 75	$ 45
$1,500	$ 125	$105
$2,000	$ 175	$165
$3,000	$ 290	$290

These changes also required offsetting adjustments affecting two other provisions--the special $20 abatement and the social development tax.

The tax saving for the remainder of 1971 is estimated at $35 million.

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