Government of Canada

Personal and corporate income tax expenditures

December 1993

Canada

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Department of Finance Canada
Ministère des Finances Canada

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Department of Finance
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INTRODUCTION

The purpose of this report is to serve as a source of information for parliamentarians, government officials and others who wish to analyze Canada's federal income tax system. It is also an important input into the process of evaluating the tax system's operation. However, it should be emphasized that this report itself does not attempt to make judgements about either the appropriateness of government policy objectives or the effectiveness of the various income tax provisions in achieving those objectives.

The principal function of income taxes is to raise the revenues necessary to finance government operations. In addition, the income tax system is often used to implement government policy objectives by providing assistance or incentives to particular groups of individuals, businesses or to certain types of activities. These measures, which take the form of preferential income exclusions, deductions, deferrals or credits, are typically referred to as tax expenditures. This document provides estimates of the cost of these items for both the personal income tax system for the years 1989, 1990 and 1991, and the corporate income tax system for the years 1989 and 1990.

In order to identify tax expenditures, it is necessary to establish a "benchmark" tax structure which does not contain any preferential tax provisions. Tax expenditures are defined as deviations from this benchmark. It is important to recognize that reasonable differences of opinion exist as to the definition of the benchmark tax system, and hence what constitutes a tax expenditure. For example, child care expenses could be considered to be a cost of earning income and therefore part of the benchmark tax system but, if they are regarded as personal consumption, then tax assistance for child care expenses would be a tax expenditure.

This report takes a broad approach – only the most fundamental structural elements of the tax system are considered to be part of the benchmark. By defining the benchmark tax system in this manner, most tax provisions are treated as tax expenditures. This approach provides information on a full range of measures, and so allows readers who take a different position as to the appropriate benchmark system to utilize this document to construct their own list of tax expenditures.

There are several tax provisions identified in the document that are not generally considered to be tax expenditures even though they reduce the amount of revenue collected. These measures are denoted as "memorandum items" and have been included to provide additional information. Three types of memorandum items are included.

- Measures that are considered to be part of the benchmark system. The dividend tax credit, for example, reduces or eliminates the double taxation of income earned by corporations and distributed to individuals through dividends.
- Measures where there may be some debate over whether the item should be considered to be a tax expenditure. The business expenses on meals and entertainment, for example, may be considered to be an expense

incurred in order to earn income (and is therefore part of the benchmark) or they may be considered to provide a significant element of personal benefit (and therefore constitute a tax expenditure).

- Measures where the available data do not permit separation of the tax expenditure component associated with a provision from the portion which is essentially part of the benchmark tax system. For example, a portion of tax free allowances for MPs is used to cover legitimate employment expenses (and is therefore part of the benchmark tax system) while the rest may be used for personal consumption (and is therefore a tax expenditure). Since it is not possible to distinguish between these two elements, the non-taxation of such allowances is included as a memorandum item.

The federal government collects personal income taxes on behalf of the provinces (other than Quebec) which levy their income taxes as a percentage of basic federal tax. It also collects corporate income taxes on behalf of seven provinces (the exceptions are Quebec, Ontario, and Alberta), which use the same taxable income base as the federal government but levy taxes at various rates. While there are provincial tax expenditures associated with the tax measures examined in this report, the estimates do not incorporate these impacts.

Tax expenditure documents published prior to the major tax reform starting in 1988 provided tax expenditure estimates for personal, corporate and commodity taxes. Phase one of tax reform came into effect in 1988, resulting in a major overhaul of the personal and corporate income tax systems. Many tax expenditures were eliminated, reduced, or, in the case of personal taxes, changed from deductions to credits. Tax reform affected not only the number of tax expenditure items, but also their revenue impacts because it changed the rate structure against which they are calculated. The second phase of the tax reform replaced the manufacturing sales tax with the Goods and Services Tax (GST), effective in 1991. Because of the significant changes in the tax structure throughout these reforms, no tax expenditure accounts were released during this transitional period.

In December 1992, the first post-reform report, *Government of Canada Personal Income Tax Expenditures*, was issued. This report covered only personal income tax expenditures for the years 1988 and 1989 because of the lack of statistical information on the newly introduced Goods and Services Tax and lags in the receipt of post-1988 tax reform data for corporations. While preliminary post-reform data for the 1988 taxation year were available for corporations, they did not accurately reflect the impact of tax reform because of the transitional measures in the package and the carry-over of accelerated deductions and credits from previous years. Information is now available to estimate corporate income tax expenditures for the 1989 and 1990 taxation years.

A report on tax expenditures associated with the Goods and Services Tax will be released early in 1994. Consequently, this document presents tax expenditures for the corporate income tax system for the 1989 and 1990 taxation years using final and preliminary data, respectively. For the personal income tax system, tax expenditures are provided for the years 1989, 1990 and 1991.

The first part of the report provides a general discussion of the tax expenditure concept in order to facilitate understanding of the quantitative estimates. This is followed by tables of tax expenditure and memorandum item estimates for the personal and corporate income tax systems. Appendix A (personal) and Appendix B (corporate) provide descriptions of each measure as well as information on data sources and methodology used in constructing the estimates. Appendices C and D provide brief summaries of changes to the personal and corporate income tax systems from 1983 to the period covered by the estimates. Appendix E consists of a cross-reference with the classification system used in the previous (1985) corporate income tax report.

DEFINING INCOME TAX EXPENDITURES

There are many ways for the government to achieve its social and economic objectives. The most visible is direct government spending on programs, grants and subsidies. The government may also pursue these policy objectives through measures contained in the income tax system. Methods of providing relief from the payment of taxes include income exclusions and deductions, tax credits and deferrals. Since in many ways these measures represent an alternative form of government assistance with financial implications similar to those of direct expenditures, they are generally referred to as tax expenditures.

Tax expenditures are used to support a variety of goals ranging from promoting savings and investment, to encouraging research and development, to maintaining international competitiveness, to partially defraying the cost of charitable contributions. Many personal income tax measures, such as the age and disability credits, are based on the specific characteristics of the taxpayers. Similarly, several corporate tax measures are tied to the characteristics of the business. For example, the small business deduction is only available to Canadian-controlled private corporations. Other tax expenditures, such as the pension income credit and the manufacturing and processing profits deduction, are linked to the source of income. A third possibility is tax relief linked to the use of funds, such as the Scientific Research and Experimental Development Tax Credit, which is available to businesses making qualified expenditures.

What are tax expenditures?

Tax expenditures represent an alternative to direct spending for achieving government policy objectives. They are defined as deviations from a benchmark tax system. Typically, they take the form of income exclusions or deductions, tax credits or deferrals that are available to select groups of individuals or businesses.

In order to provide as much information as possible, a broad definition of benchmark tax system has been adopted.

Given the informational intent of this report, estimates are also provided for some tax measures even though they are usually considered to be part of the benchmark tax system, such as the dividend tax credit. These tax measures are referred to as memorandum items.

Elements of the Benchmark System

In order to identify tax expenditures, it is necessary to establish a broadly-based "benchmark" tax structure which does not contain tax preferences. Tax expenditures are then defined as deviations from this benchmark.

To ensure that the tax expenditure estimates provide meaningful information on the cost of government operations, the benchmark system is defined as consisting of the basic structural features of the current personal and business income tax systems. The benchmark therefore includes the existing tax rates and brackets, unit of taxation, time-frame of taxation, treatment of inflation for calculating income and those measures designed to reduce or eliminate double taxation.

It should be stressed that income is the base on which income taxes are computed and that the definition of income is crucial in determining what is a tax expenditure. Tax provisions which provide for the deduction of current costs incurred to earn income are considered to be part of the benchmark system and therefore not tax expenditures. For example, the deductibility of labour costs or economic depreciation of business assets in determining business income would not be considered a tax expenditure.

It is important to emphasize that the definition of the benchmark tax structure, and hence the identification of tax expenditures, is subjective in nature. Reasonable differences of opinion may exist as to the interpretation and categorization of tax measures. For example, unemployment insurance (UI) premiums paid by an employee could be viewed either as an expense of earning income or as a tax used to finance an income transfer to the unemployed. From the first perspective, the current system of providing employees a tax credit for contributions would not be a tax expenditure. The credit for UI premiums merely recognizes an expense of earning income, and hence, is part of the benchmark tax structure. On the other hand, one could argue that the tax credit for UI contributions represents a tax expenditure because the taxes paid by taxfilers are generally not deductible against personal income taxes. For this reason the tax treatment of UI premiums is reported as a memorandum item. Measures such as these which are subject to debate are discussed on an individual basis in Appendices A and B. Those items which are not considered to be part of the benchmark, but where reasonable differences of opinion may exist, are reported as memorandum items.

The following provides a more detailed discussion of the features of the benchmark for both the personal and corporate tax systems.

Tax rates and income brackets

For the personal income tax system, the existing rate structure, including surtaxes, is taken to be part of the benchmark system. The basic personal credit is also treated as part of this structure since it is universal in its application and can be viewed as providing a zero rate of tax up to an initial level of income. However, the cost of this credit is included as a memorandum item.

With respect to the corporate income tax system, the basic federal corporate tax rate applicable to non-manufacturing corporations is 28.84 per cent including the surtax but after the provincial abatement. Provisions that reduce this tax rate for certain types of activities or corporations are regarded as tax expenditures. These include the lower tax rate for manufacturing and processing profits and for small business profits, which is available on the first $200,000 of active business income earned by all Canadian-controlled private corporations (CCPC). The large corporations tax, levied at the existing rate, is also considered to be part of the benchmark tax system because it serves as a corporate minimum tax.

Tax unit

Personal income taxes in Canada are based on the individual's income. Consequently, the individual is taken as the benchmark tax unit for the purposes of identifying tax expenditures in this report. This choice leads to the classification of the various provisions related to dependants, such as the married credit, as tax expenditures.

The choice of the appropriate unit for the purpose of the corporate income tax benchmark system raises a number of conceptual issues. There is a wide range of possible tax units, including the establishment or activity unit within a corporation, the single legal corporate entity, and the consolidated group of related corporations. The present income tax system contains elements of all these approaches. For example, the view that the activity unit is the appropriate unit of taxation is consistent with the "at-risk" rules, which restrict the amount of investment tax credits and business losses that may be flowed out to limited partners. The view that the single legal corporate entity is the relevant tax unit is supported by the fact that losses from one part of a business can be offset by other business income within the same corporation but the losses by one corporation may not generally be used against the income of another corporation in the group. Other provisions in the current tax system allow corporate groups to reorganize their corporate structure without triggering any capital gains. These rollover provisions lead to a deferral of capital gains, which would be appropriate if the taxation unit is the consolidated group of related corporations. On balance, the view most closely related to the existing system is that of the single legal corporate entity. For this reason, the single corporation is adopted as the benchmark tax unit, together with the availability of various rollover provisions when a corporate structure is changed, which permit the deferral of capital gains.

Taxation period

The benchmark taxation period for the personal income tax system in this document is the calendar year. Accordingly, any measures which provide deferrals of taxable income to a subsequent year are considered to be tax expenditures. For example, farmers are permitted to defer the receipt of income from the sale of grain through the use of special cash purchase tickets and this is listed as a tax expenditure.

The benchmark taxation period for the corporate income tax system is the fiscal year. As with the personal tax system, deferrals, such as fast write-offs of Canadian exploration and development expenditures, are considered to be tax expenditures.

A strict application of the annual taxation period would imply that measures which provide for the carry-over of losses to other years would be tax expenditures. However, carry-overs of business and investment losses are treated as part of the benchmark tax system in this report. The relatively cyclical nature of this income suggests that business and investment income should be viewed over a number of years. Estimates of the cost of these provisions are provided in the memorandum items section of the report.

Treatment of inflation

Both the personal and corporate income tax systems are based on nominal income with a number of provisions that account for the impact of inflation. Nominal income is therefore taken as the appropriate basis for the benchmark tax system. Special measures which may serve to recognize inflation, such as the partial exclusion of capital gains from taxable income, are identified as tax expenditures.

Avoidance of double taxation

Conceptual difficulties arise in deciding whether certain provisions which reduce or eliminate double taxation should be considered as tax expenditures.

For example, regarding the personal and corporate income tax systems as completely separate would suggest that the dividend tax credit is a personal tax expenditure. However, the credit is an essential feature of the overall income tax structure (i.e., both corporate and personal) which serves to eliminate or reduce double taxation. In its absence, income earned through corporations would be taxed twice, once in the corporation and once at the personal level. For this reason, the dividend tax credit is not considered to be a tax expenditure.

The non-taxation of intercorporate dividends is designed to ensure that income already taxed in one corporation is not taxed again upon receipt of a dividend by another corporation. Without this exemption, double taxation would occur and the corporate income tax system would not be neutral across organizational structures. For example, consider a single corporation that currently operates as a number of divisions. Now suppose it re-organizes its corporate structure into a holding company with wholly-owned subsidiaries instead of divisions. The profits from the subsidiaries flow to the holding company through intercorporate dividends. If these dividends were subject to taxation at both the subsidiary and the holding company level, double taxation would occur. Consequently, the exemption of intercorporate dividends is also not considered a tax expenditure.

Similar reasoning applies to the tax exemption on income of foreign affiliates of Canadian corporations. Canada either exempts certain dividend income paid by foreign affiliates from Canadian corporate income tax or it provides a foreign tax credit for income taxes paid in the other country. In either case, the intention is to ensure that income is not subject to double taxation (i.e., once in the country of residence of the foreign affiliate and once again in Canada when the dividends are paid out.) A further discussion of this topic and the possible benchmarks that could be considered is contained in Appendix B.

Information on some of these measures that provide relief from "double taxation" is provided in the appropriate memorandum sections of this report.

The benchmark tax system

The definition of the benchmark tax structure, and hence the identification of tax expenditures, is subjective in nature. A broadly-based benchmark income tax system is used in this report. The essential features are:

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- *the existing tax rates and income brackets are taken as given;*
- *the tax unit is the individual;*
- *taxation is imposed on a calendar year basis;*
- *normal income (i.e., no adjustment for inflation) is used in defining income; and*
- *it incorporates structural features of the overall tax system such as the dividend gross-up and credit.*

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- *the existing general tax rate is taken as given;*
- *the tax unit is the corporation;*
- *taxation is imposed on a fiscal year basis;*
- *nominal income (i.e., no adjustment for inflation) is used in defining income; and*
- *it incorporates structural features of the overall tax system such as the non-taxation of inter-corporate dividends.*

Calculation and Interpretation of Tax Expenditures

The calculations provide an estimate of the cash flow impact to the government of each particular measure. Subject to the limitations described below the figures indicate the amount of revenue forgone in each particular year as a result of the tax expenditure. Accordingly, the estimates covered in this report may not be indicative of the long run or steady state revenue cost associated with each tax expenditure.

In deriving the tax expenditures, the estimates in this document reflect the amount by which federal income tax revenues were reduced due to the existence of the various tax measures assuming:

(1) all measures are evaluated independently, and

(2) all other factors remain unchanged.

These methodological distinctions are important and have implications for how the numbers should be interpreted. These concepts are discussed in further detail below.

(1) Independent estimates

The estimate for each tax expenditure is undertaken separately, assuming that all other income tax provisions remain unchanged. An implication of estimating each item separately is that the estimates cannot be meaningfully aggregated to determine the total cost of a particular group of tax expenditures or of all tax expenditures combined.

As explained in more detail in the following paragraphs, this restriction arises from the fact that (a) the income tax rate structure is progressive and (b) tax measures interact with one another.

(a) Progressive tax rates

The overall effect of claiming a number of exemptions and deductions can move an individual to a lower tax bracket than would have applied had none of the tax measures existed. To the extent that this occurs, aggregation of the tax expenditure estimates may underrepresent the "true" cost to the federal government of maintaining all of them. For example, consider a taxpayer whose taxable income was $1,000 below the level at which he or she would move from the 17 into the 26 per cent tax bracket. Imagine that this taxpayer arrives at this level of taxable income by using two tax deductions of $1,000 each (e.g. home relocation loan and Registered Retirement Savings Plan (RRSP) contribution). Eliminating either deduction by itself would increase taxable income by $1,000 and the taxpayer's federal tax liability by $170. Eliminating both measures simultaneously, however, would not raise the tax liability by $170 + $170, but rather by $170 + $260.

Aggregating the tax expenditure estimates for these two items would provide a misleading impression of the revenue impact of eliminating both of them. Therefore, the estimates in this document cannot be meaningfully aggregated to determine the total cost of a particular group of tax expenditures or of all tax expenditures combined.

While there is only one statutory tax rate for corporations, the small business deduction creates a de facto progressive tax rate schedule for some corporations. In this way, the above argument is valid for the corporate income tax system as well, although the effect is not as large as for personal income taxes.

(b) Interaction of tax measures

As noted above, the tax expenditure estimates are computed one at a time, assuming all other provisions remain unchanged. Given that tax provisions sometimes interact, the dollar value of the sum of a group of tax expenditures which have been calculated individually may differ from the dollar value of calculating the same group of tax expenditures concurrently.

For example, consider the non-taxation of veterans' allowances, which reduces the recipient's *net income*. Many measures, such as the medical expense credit, are calculated on the basis of *net income*. Thus, the reported tax expenditure for the non-taxation of veterans' allowances represents not only the direct impact on government receipts of not taxing the allowances, but also the indirect impact of the change on the cost of other tax measures which depend on net income, such as the medical expense credit.

As a result, adding the independently estimated tax expenditures would result in double counting. It would not provide an accurate measure of the revenue which would be generated by simultaneously altering a group of measures.

Aggregation of tax expenditure estimates

The individual estimates cannot be added together to determine the total cost of tax expenditures. This occurs for two reasons:

- *The simultaneous elimination of more than one tax expenditure would generate different estimates because of progressive tax rates.*
- *Given the interaction of certain tax measures, the revenue impact of eliminating two or more measures simultaneously would differ from taking the independently estimated numbers published in this document and simply aggregating them.*

(2) All other factors remain unchanged

The tax expenditure estimates in this report represent the amount by which federal tax revenues were reduced due to the existence of each preference assuming that all other factors remain unchanged.

In order to evaluate the extent of this reduction, the approach taken here is to recalculate federal revenues assuming the measure in question has been eliminated. The difference between this recalculated figure and actual revenues provides the quantitative estimate of the tax expenditure.

The assumption that all other things remain the same means that no allowance is made for possible (a) behavioural responses by taxpayers, (b) consequential government policy changes, or (c) changes in tax collections due to altered levels of aggregate economic activity which might result from the elimination of a particular tax measure (further detail is provided below). Incorporating these factors would add a large subjective element to the calculations.

(a) *Absence of behavioural responses*

In many instances, the removal of a tax expenditure would cause taxpayers to rearrange their affairs to minimize the amount of extra tax they would have to pay, perhaps by making greater use of other tax measures. Therefore, the omission of behavioural responses in the estimating methodology generates cost estimates which may exceed the revenue increases that would have resulted if a particular provision had been eliminated. For example, consider the case of the deduction for RRSP contributions. Eliminating this provision would result in the amount of additional federal revenue indicated in the report only if the contributions were not directed to an alternative tax-preferred form of saving. However, the absence of the RRSP deduction might encourage individuals to place their funds instead in some other tax-favoured instrument, such as a Labour Sponsored Venture Capital Corporation. If such a response did occur, eliminating the RRSP deduction would result in a smaller increase in revenues than that indicated.

(b) *Consequential government policy changes*

The estimates ignore transitional provisions that might accompany the elimination of a particular measure and take no account of other consequential changes in government policy. For example, if the government were to eliminate a particular tax deferral, it could require the deferred amount to be brought into income immediately. Alternatively, it might prohibit new deferrals but allow existing amounts to continue to be deferred, perhaps for a specified period of time. The estimates in this report do not provide for any such transitional relief. Similarly, the estimates make no allowance for consequential government policy changes. For example, if lottery winnings were made taxable, an argument could be made that the cost of tickets should be deductible in the same way as other investment expenses. However, in calculating the cost of providing the exemption for lottery winnings, no allowance is made for such hypothetical consequential government policy changes.

(c) *Impact on economic activity*

The tax expenditure estimates do not take into account the potential impact of a particular tax provision on the overall level of economic activity and thus aggregate tax revenues. For example, while eliminating the low tax rate for manufacturing and processing could generate a significant amount of revenue for the government, the amount of manufacturing activity could decline, resulting in possible job losses, a reduction in taxable income and hence a reduction in the aggregate amount of tax revenue collected. Furthermore, the estimates do not speculate on how the government might use the additional funds available to it and the possible impacts this could have on revenues.

Restriction of tax expenditure estimates to initial impact

Each tax expenditure estimate in this report represents the amount by which federal tax revenues were reduced due to the expenditure assuming that all other factors remain unchanged. The estimates do not take into account changes in taxpayer behaviour, consequential government actions or feedbacks on aggregate tax collections through induced changes in economic activity.

Calculation of Specific Estimates

The majority of the personal income tax expenditures in this report were computed with a personal income tax model which uses the methodological approach discussed above. This model simulates changes to the personal income tax system using the statistical sample of tax returns collected by Revenue Canada for its annual publication *Taxation Statistics*. The model estimates the revenue impact of possible tax changes by re-computing taxes payable on the basis of adjusted values for all relevant income components, deductions and credits. For example, the removal of the moving expense deduction would not only result in a change in net income but also in all of the credits, such as the medical expense tax credit, whose values depend on net income. For those tax expenditures that could not be estimated using this model alone, supplementary data were acquired from a variety of sources. Details on data sources and the methodologies used for estimating the cost of specific personal income tax measures are provided in Appendix A.

A corporate income tax model was used to measure most of the corporate tax expenditures. As with the personal income tax model, it is based on a statistical sample of tax returns collected by Revenue Canada, and is able to re-compute taxes payable on the basis of adjusted tax provisions. This re-computation of taxes takes into account the availability of unused tax credits, deductions, and losses that would be used by the corporation to minimize its tax liability. Tax expenditures that could not be estimated using this model alone were based on supplementary data acquired from a variety of sources, the details of which are provided in Appendix B.

Calculation of tax deferrals

Estimating the cost of tax deferrals presents a number of methodological difficulties since, even though the tax is not currently received, it may be collected at some point in the future. It is therefore necessary to derive estimates of the cost to the government of providing such a tax deferral while at the same time ensuring comparability with the other estimates presented here.

In this report, income tax deferrals are estimated on a "current cash-flow" basis. That is, the cost is computed as the forgone tax revenue associated with the additional net deferral in the year (deductions for the current year less the income inclusion from previous deferrals). The estimates thus computed provide a reasonably accurate picture of the ongoing costs of maintaining a particular tax provision in a mature tax system. They can be aggregated over time without double counting and are comparable to estimates of the costs associated with tax credits and deductions.

Comparison with direct expenditures

In comparing the cost of the tax expenditure estimates in this report to direct spending estimates, it should be noted that a dollar of tax preference is often worth substantially more to the taxpayer than a dollar of direct spending. This results from the fact that, in most cases, government grants (i.e. direct spending) are taxable to the recipients. For example, consider an individual facing a marginal tax rate of 29 per cent. A deduction of $100 would generate a tax expenditure of $29. If, instead, the government were to provide the individual with a taxable grant of $29, after-tax income would increase by only $20.59 since he/she would face an income tax liability of $8.41 ($29 x 29%). An equivalent analysis applies for corporations.

Tax expenditure estimates

Table 1 provides estimates of the cost to the federal government of personal income tax expenditures for 1989, 1990 and 1991 grouped according to functional categories. Table 2 provides estimates of corporate income tax expenditures for 1989 and 1990 for all corporations and by major industrial sector. The grouping into functional categories is not intended as a policy justification for the specific provisions nor is it the case that all tax measures fall neatly into one of the categories. The categories are provided solely for organizational purposes.

All estimates are reported in millions of dollars. The letter "S" indicates that the cost is less than $2.5 million while "n.a." signifies that data were not available. The inclusion in the report of items for which estimates are not available is warranted given that the report is designed to provide information on the type of assistance delivered through the tax system even if it is not always possible to provide a quantitative estimate. Work is continuing to replace "n.a."s with quantitative estimates where possible. For example, the personal income tax entry dealing with accelerated depreciation was an "n.a." in last year's report. In this year's publication a dollar value is reported.

The December 1992 document, *Government of Canada Personal Income Tax Expenditures*, provided personal income tax expenditure estimates for 1988 and 1989. This document updates the 1989 values, and provides estimates for 1990 and 1991. This document also provides corporate tax expenditure estimates for 1989 and 1990. The cost of many tax measures has changed considerably relative to the last corporate tax expenditure report in 1985. These changes are attributable to the significant changes in the number of corporations, economic activity, the impact of inflation and the changes that resulted from tax reform. Certain tax expenditures also demonstrated significant changes over the more recent period (1989-91) covered in this report. Footnotes to the tables present explanations of these developments.

Some measures for which estimates were not available in earlier reports are estimated here. This is due to improvements in data availability and estimating methodologies.

Table 1

PERSONAL INCOME TAX EXPENDITURES

	1989	1990	1991
		(millions of dollars)	
Culture and recreation			
Non-taxation of capital gains on gifts of cultural property	n.a.	n.a.	n.a.
Non-taxation of lottery and gambling winnings	755	830	860
Deduction for certain contributions by individuals who have taken vows of perpetual poverty	S	S	S
Deductions for clergy residence	40	45	48
Flow through of CCA on Canadian films[1]	20	14	8
Write-off of Canadian art purchased by unincorporated business	n.a.	n.a.	n.a.
Assistance for artists	n.a.	n.a.	n.a.
Deduction for artists and musicians	n.a.	n.a.	n.a.
Education			
Exemption on first $500 of scholarship, fellowship and bursary income	10	9	8
Deduction of teachers' exchange fund contributions	S	S	S
Tuition fee credit	125	145	150
Education credit	32	33	34
Education and tuition fee credits transferred	100	115	130
Registered education savings plans	n.a.	n.a.	n.a.
Employment			
Non-taxation of certain non-monetary employment benefits	n.a.	n.a.	n.a.
Non-taxation of strike pay	13	18	12
Non-taxation of allowances for volunteer firefighters	4	4	4
Northern benefits deductions	215	225	235
Deduction of home relocation loans	5	8	6
Deferral of salary through leave of absence/sabbatical plans	n.a.	n.a.	n.a.
Employee benefit plans	n.a.	n.a.	n.a.

	1989	1990	1991
		(millions of dollars)	
Overseas employment credit	11	14	16
Employee stock options	23	13	18
Family			
Deferral of capital gains through transfers to spouse	n.a.	n.a.	n.a.
Married credit	1,105	1,055	1,100
Equivalent-to-married credit	475	530	565
Dependant credit	385	395	400
Refundable child tax credit	2,065	2,110	2,215
Farming and fishing			
$500,000 lifetime capital gains exemption for farm property(2), (3)	300	290	235
Cash basis accounting	n.a.	n.a.	n.a.
Deferral of income from destruction of livestock	S	S	S
Deferral of income from grain sold through cash purchase tickets	-25	-14	-18
Deferral of capital gain through intergenerational rollovers of family farms	n.a.	n.a.	n.a.
Exemption from making quarterly tax instalments	n.a.	n.a.	n.a.
Deferral through ten-year capital gain reserve(4)	63	-6	-29
Flexibility in inventory accounting	n.a.	n.a.	n.a.
Federal/provincial financing arrangements			
Quebec abatement	1,905	2,070	2,125
Transfers of income tax room to provinces	8,235	8,725	8,815
General business and investment			
$1,000 capital gain on personal-use property	n.a.	n.a.	n.a.
$200 capital gains exemption on foreign exchange transactions	n.a.	n.a.	n.a.
$100,000 lifetime capital gains exemption(2), (3)	985	755	665
Partial inclusion of capital gains(2)	1,425	695	665
Taxation of capital gains upon realization	n.a.	n.a.	n.a.
Deduction of research and development expenditures	11	9	16

	1989	1990	1991
		(millions of dollars)	
Deduction of limited partnership losses	170	195	230
Deferral through capital gains rollovers	n.a.	n.a.	n.a.
Deferral through billed-basis accounting by professionals	n.a.	n.a.	n.a.
Deferral through five-year reserve[4]	23	-7	-58
Investment tax credit[5]	84	56	49
Health			
Non-taxation of employer-paid insurance premiums for group private health and welfare plans	685	760	830
Disability credit[6]	150	190	255
Medical expenses credit	150	190	210
Income maintenance and retirement			
Non-taxation of guaranteed income supplement and spouse's allowance payments	220	230	235
Non-taxation of social assistance payments	235	240	290
Non-taxation of worker's compensation payments	565	630	695
Non-taxation of certain income from personal injury awards	S	S	S
Non-taxation of up to $10,000 of death benefit	n.a.	n.a.	n.a.
Non-taxation of employer-paid premiums for group term life insurance of up to $25,000[7]	135	140	155
Non-taxation of RCMP pension/compensation for injury, disability or death	7	8	8
Non-taxation of veterans' allowances, civilian war pensions and allowances and other service pensions (including those from allied countries)	48	40	33
Non-taxation of veterans' disability pension and support for dependants	125	135	150
Non-taxation of investment income on life insurance policies[8]	*	*	*
Treatment of alimony and maintenance payments	165	175	205
Age credit	1,030	1,165	1,315

	1989	1990	1991
		(millions of dollars)	
Pension income credit	240	260	285
Saskatchewan pension credit	S	S	S
Registered retirement savings plans			
Deduction for contributions(9)	2,830	2,550	3,310
Non-taxation of investment income	2,020	2,670	2,960
Taxation of withdrawals(10)	-505	-625	-735
Registered pension plans			
Deduction for contributions	3,615	4,050	4,460
Non-taxation of investment income	7,440	9,000	8,950
Taxation of withdrawals	-2,890	-3,635	-4,030
Deferred profit sharing plans	n.a.	n.a.	n.a.
Resource sector			
Deduction of resource-related expenditures(11)	105	75	37
Assistance for prospectors and grubstakers	S	S	S
Small business			
$500,000 lifetime capital gains exemption for small business shares(2) (3)	595	580	585
Non-taxation of capital dividends	n.a.	n.a.	n.a.
Deduction of allowable business investment losses	66	115	130
Labour-sponsored venture capital credit	14	14	29
Stock options for CCPC employees	n.a.	n.a.	n.a.
Deferral through ten-year capital gain reserve(4)	3	-4	-13
Other Items			
Non-taxation of income of Indians on reserves	n.a.	n.a.	n.a.
Non-taxation of income from War Savings Certificates/Victory Bonds	S	S	S
Non-taxation of capital gains on principal residences(12)			
Partial inclusion rate	3,000	2,390	3,190
Full inclusion rate	4,655	3,305	4,425
Non-taxation of gifts and bequests	n.a.	n.a.	n.a.

	1989	1990	1991
		(millions of dollars)	
Non-taxation of income from the Office of the Governor General	S	S	S
Charitable donations credit	750	815	845
Gifts to Crown credit	11	19	22
Political contribution credit	9	11	11
Memorandum items			
Non-taxation of allowances for certain public officials	5	5	5
Non-taxation of allowances for diplomats and other government employees posted abroad	8	9	9
Child care expense deduction	265	300	330
Moving expense deduction	69	69	65
Deduction of carrying charges incurred to earn income	530	690	655
Deduction of meals and entertainment expenses	85	115	100
Deduction of farm losses for part-time farmers	37	46	51
Farm and fishing loss carry-overs	9	7	6
Deduction for logging	S	S	S
Capital loss carry-overs	39	27	42
Non-capital loss carry-overs	36	45	44
Deduction of accelerated tax depreciation not reported elsewhere	88	93	98
Deduction of other employment expenses	500	485	485
Deduction of union and professional dues	355	385	410
Unemployment insurance(13)			
Unemployment insurance contribution credit	700	865	995
Non-taxation of employer-paid premiums	1,400	1,750	2,010
Canada and Quebec pension plan credit			
Canada and Quebec pension plan credit	745	825	865
Non-taxation of employer-paid premiums	940	1,055	1,120
Foreign tax credit	130	135	130
Dividend gross-up and credit	655	660	700
Federal sales tax credit(14)	585	990	*
Basic personal credit	15,830	16,665	16,960

Footnotes

1. Starting in 1988, the depreciation rate on certified Canadian film productions was changed from 100 per cent, subject to the half year rule, to 30 per cent, not subject to the half year rule. Certain productions on which planning was well advanced in 1987 or which were part of a series benefited from the previous rules even if they were acquired in 1988. This change contributed to the decline in the associated tax expenditure over the 1989-91 period.
2. The inclusion rate for capital gains was raised from 2/3 in 1989 to 3/4 in 1990 and 1991. This change affected the value of tax expenditures for measures which exempt capital gains from taxation or defer such taxation. These exemptions and deferrals sheltered 3/4 of the gains from taxation in 1990 and 1991 rather than 2/3 and, other things being equal, the associated tax expenditures would have risen in value to reflect this change.
3. Reported capital gains declined in 1990 and 1991 sufficiently to offset the impact of the higher inclusion rate. Reported gains on qualified farm property fell from $2.2 billion in 1989 to $1.4 billion in 1990 and to $1.0 billion in 1991. For qualified small business shares, the decline was from $4.2 to $3.1 to $3.0 billion over the 1989-91 period. For other assets, reported gains fell from $11.0 billion in 1989 to $6.5 billion in 1990 and to $5.5 billion in 1991.
4. Amounts brought back into income from previously created capital gains reserves exceeded amounts set aside in newly-established reserves in 1990 and 1991, giving rise to negative tax expenditures.
5. Most investment tax credits were phased out as part of the 1988 tax reform, leading to declines in this tax expenditure in 1989, 1990 and 1991.
6. The number of taxfilers claiming the disability credit grew from 300,000 in 1989 to 355,000 in 1990 and to 390,000 in 1991. The value of this credit to a taxfiler was raised by $135 (nearly 25 per cent) in 1991. Both factors contributed to the rapid growth of this tax expenditure.
7. Employer-paid group term life insurance premiums were combined with employer-paid health care premiums in the previous edition of this publication and treated as a single tax expenditure item.
8. Although this measure does provide tax relief to individuals, it is implemented through the corporate income tax system. See the business income tax expenditure section of this report for an estimate of the value of this tax expenditure.
9. RRSP contributions declined from $11.9 billion in 1989 to $10.6 billion in 1990 with a resulting decrease in the associated tax expenditure. Contributions increased to $13.4 billion in 1991.
10. RRSP withdrawals increased from $2.6 billion in 1989 to $3.2 billion in 1990 and to $3.9 billion in 1991. The negative tax expenditure arising from taxation of RRSP withdrawals grew accordingly.

11. Deductions of resource-related expenditures by individual taxfilers declined from $386 million in 1989 to $270 million in 1990 and to $132 million in 1991.
12. Not only were fewer houses sold in 1990 than in the previous year but the average price fell to $143,000 in 1990 as compared with $149,000 in 1989. As a result, the capital gains realized on the sale of principal residences declined in 1990.
13. Unemployment insurance premium rates were increased substantially, from $1.95 per $100 of earnings in 1989 to $2.25 and $2.53 in 1990 and 1991 respectively, boosting the value of the associated memorandum item.
14. The federal sales tax credit amounts were raised from their 1989 values of $100 (individual and spouse) and $50 (qualified relations) to 1990 amounts of $140 and $70 respectively. The value of the associated memorandum item increased accordingly. In 1991 this measure was replaced with the Goods and Services Tax Credit which is delivered directly to qualifying individuals rather than via the income tax system.

Table 2

CORPORATE INCOME TAX EXPENDITURES

All corporations

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses (1)	2,604	2,077
Low tax rate for manufacturing and processing (2)	278	315
Low tax rate for credit unions and co-operatives	41	50
Exemption from branch tax for transportation, communication, banking, and iron ore mining corporations	n.a.	n.a.
Exemption from tax for international banking centres	n.a.	n.a.
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit (3)	450	548
Atlantic Canada Investment Tax Credit	89	71
Special Investment Tax Credit	101	28
Cape Breton Investment Tax Credit	6	3
Exploration Tax Credit	30	19
ITCs claimed in current year but earned in prior years	214	176
Logging tax credit	29	10
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains (4)	1,439	417
Resource allowance		
Resource allowance in lieu of deductibility of provincial royalties	191	108
Deductibility of provincial royalties for the Syncrude project	29	41
Deductibility of royalties paid to Indian bands	n.a.	n.a.
Earned depletion	102	105
Deductibility of itemized charitable donations	82	89
Gifts to the Crown	26	S

	1989	1990
	(millions of dollars)	
Non-deductibility of advertising expenses in foreign media	n.a.	n.a.
Non-taxation of provincial assistance for venture investments in small business	n.a.	n.a.
Deferrals		
Fast write-off for Canadian development expenses	142	156
Fast write-off for Canadian exploration expenses	323	446
Fast write-off for capital equipment used for scientific research and experimental development	40	43
Allowable business investment loss	21	36
Deductibility of carrying charges on land	7	19
Available for use	n.a.	0
Capital gains taxation on realization basis	n.a.	n.a.
Expensing of advertising costs	n.a.	n.a.
Cash basis accounting	n.a.	n.a.
Flexibility in inventory accounting	n.a.	n.a.
Deferral of income		
On grain sales	n.a.	n.a.
On destruction of livestock	n.a.	n.a.
Holdback on progress payments to contractors	n.a.	n.a.
Deferral of tax from use of billed-basis accounting by professionals	n.a.	n.a.
International		
Exemption from withholding tax		
For interest on foreign currency deposits	530	505
For interest on long term corporate securities	13	14
For the use in Canada of motion picture films and for film and video tape used in television	9	9
Non-taxation of life insurance companies' world income (5)	100	65
Tax exemption on income of foreign affiliates of Canadian corporations	n.a.	n.a.
Exemption of foreign shipping and aircraft companies from Canadian income tax	n.a.	n.a.

	1989	1990
	(millions of dollars)	
Other tax expenditures		
Transfer of income tax room to provinces in respect of shared programs	564	520
Exemption from non-resident withholding tax for interest on federal, provincial and municipal direct and guaranteed debt	15	17
Non-taxation of registered charities	n.a.	n.a.
Income tax exemption for provincial and municipal corporations	n.a.	n.a.
Non-taxation of certain federal Crown corporations	n.a.	n.a.
Memorandum items		
Excess of tax depreciation over book depreciation [6]	1,651	810
Refundable Part I tax on investment income of private corporations [7]	1,370	872
Refundable capital gains for special investment corporations [8]	189	81
Investment corporation deduction	S	S
Loss carry-overs		
Non-capital losses [9]	1,118	1,376
Net capital losses	n.a.	n.a.
Meals and entertainment expenses [10]	450	357
Large corporations tax		
Threshold [11]	195	420
Exempt corporations	n.a.	n.a.
Interest credited to life insurance policies	125	55
Patronage dividend deduction by credit unions and co-operatives	115	188
Non-resident-owned investment corporation refund	29	7
Deferral of capital gains income through various rollover provisions	n.a.	n.a.
Excess deduction for intangible assets	n.a.	n.a.

Agriculture, Forestry, Fishing

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	112	77
Low tax rate for manufacturing and processing	S	S
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	S	S
Atlantic Canada Investment Tax Credit	5	S
Special Investment Tax Credit	S	5
ITCs claimed in current year but earned in prior years	7	S
Logging tax credit	S	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	76	7
Deductibility of itemized charitable donations	S	S
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	11	7
Memorandum items		
Excess of tax depreciation over book depreciation	S	-6
Refundable Part I tax on investment income of private corporations	56	12
Loss carry-overs		
Non-capital losses	12	21
Meals and entertainment expenses	3	3
Patronage dividend deduction by credit unions and co-operatives	S	S

Manufacturing

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	227	202
Low tax rate for manufacturing and processing	228	251
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	249	256
Atlantic Canada Investment Tax Credit	22	30
Special Investment Tax Credit	99	15
Cape Breton Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	123	94
Logging tax credit	27	9
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	73	29
Deductibility of itemized charitable donations	20	16
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	21	20
Allowable business investment loss	3	5
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	132	125
Memorandum items		
Excess of tax depreciation over book depreciation	564	172
Refundable Part I tax on investment income of private corporations	16	27
Loss carry-overs		
Non-capital losses	320	367
Meals and entertainment expenses	73	72
Patronage dividend deduction by credit unions and co-operatives	S	73

Construction

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	473	369
Low tax rate for manufacturing and processing	S	S
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	4	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	50	16
Deductibility of itemized charitable donations	4	4
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	44	40
Memorandum items		
Excess of tax depreciation over book depreciation	36	13
Refundable Part I tax on investment income of private corporations	67	41
Loss carry-overs		
Non-capital losses	50	96
Meals and entertainment expenses	24	30

Transportation and storage

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	82	75
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	S	S
Atlantic Canada Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	4	S
Logging tax credit	S	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	9	9
Deductibility of itemized charitable donations	S	S
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	12	11
Memorandum items		
Excess of tax depreciation over book depreciation	34	8
Refundable Part I tax on investment income of private corporations	11	9
Loss carry-overs		
Non-capital losses	103	69
Meals and entertainment expenses	8	7
Patronage dividend deduction by credit unions and co-operatives	S	S

Communications

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	7	7
Low tax rate for manufacturing and processing	S	8
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	64	90
Atlantic Canada Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	11	16
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	18	S
Deductibility of itemized charitable donations	S	17
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	4	7
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	17	23
Memorandum items		
Excess of tax depreciation over book depreciation	25	11
Refundable Part I tax on investment income of private corporations	S	S
Loss carry-overs		
Non-capital losses	3	8
Meals and entertainment expenses	10	10

Public utilities

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	4	7
Low tax rate for manufacturing and processing	S	S
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	S	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	S	S
Deductibility of itemized charitable donations	S	S
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	6	6
Memorandum items		
Excess of tax depreciation over book depreciation	71	56
Refundable Part I tax on investment income of private corporations	S	S
Loss carry-overs		
Non-capital losses	7	7
Meals and entertainment expenses	S	S
Patronage dividend deduction by credit unions and co-operatives	S	S

Wholesale trade

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	366	75
Low tax rate for manufacturing and processing	15	19
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	78	105
Atlantic Canada Investment Tax Credit	S	S
Special Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	16	15
Logging tax credit	S	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	32	40
Deductibility of itemized charitable donations	6	7
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	5	5
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	61	56
Memorandum items		
Excess of tax depreciation over book depreciation	82	17
Refundable Part I tax on investment income of private corporations	28	38
Loss carry-overs		
Non-capital losses	88	119
Meals and entertainment expenses	64	61
Patronage dividend deduction by credit unions and co-operatives	30	31

Retail trade

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	381	356
Low tax rate for manufacturing and processing	S	S
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	4	S
Atlantic Canada Investment Tax Credit	S	S
Special Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	S	S
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	51	11
Deductibility of itemized charitable donations	6	4
Gifts to the Crown	19	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	39	36
Memorandum items		
Excess of tax depreciation over book depreciation	25	6
Refundable Part I tax on investment income of private corporations	76	43
Loss carry-overs		
Non-capital losses	42	198
Meals and entertainment expenses	21	20
Patronage dividend deduction by credit unions and co-operatives	10	11

Finance

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	304	251
Low tax rate for manufacturing and processing	S	S
Low tax rate for credit unions and co-operatives	41	50
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	4	10
Atlantic Canada Investment Tax Credit	S	3
Special Investment Tax Credit	S	S
ITCs claimed in current year but earned in prior years	3	11
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	993	225
Deductibility of itemized charitable donations	31	25
Gifts to the Crown	7	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	S	3
Allowable business investment loss	11	21
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	151	112
Memorandum items		
Excess of tax depreciation over book depreciation	528	353
Refundable Part I tax on investment income of private corporations	1,012	605
Refundable capital gains for special investment corporations	189	81
Investment corporation deduction	S	S
Loss carry-overs		
Non-capital losses	168	240
Meals and entertainment expenses	173	59
Interest credited to life insurance policies	125	55
Patronage dividend deduction by credit unions and co-operatives	68	65
Non-resident-owned investment corporation refund	28	6

Services

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	569	608
Low tax rate for manufacturing and processing	8	5
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	10	15
Atlantic Canada Investment Tax Credit	8	4
Special Investment Tax Credit	S	6
Cape Breton Investment Tax Credit	5	S
ITCs claimed in current year but earned in prior years	8	5
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	89	41
Deductibility of itemized charitable donations	6	5
Gifts to the Crown	S	S
Deferrals		
Fast write-off for capital equipment used for scientific research and experimental development	6	S
Allowable business investment loss	S	5
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	53	62
Memorandum items		
Excess of tax depreciation over book depreciation	234	196
Refundable Part I tax on investment income of private corporations	92	85
Investment corporation deduction	S	S
Loss carry-overs		
Non-capital losses	66	88
Meals and entertainment expenses	50	61
Patronage dividend deduction by credit unions and co-operatives	S	S
Non-resident-owned investment corporation refund	S	S

Oil and gas

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	7	11
Low tax rate for manufacturing and processing	15	27
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	24	48
Atlantic Canada Investment Tax Credit	20	19
Exploration Tax Credit	30	19
ITCs claimed in current year but earned in prior years	20	20
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	18	5
Resource allowance		
Resource allowance in lieu of deductibility of provincial royalties	-4	-3
Deductibility of provincial royalties for the Syncrude project	29	41
Earned depletion	41	95
Deductibility of itemized charitable donations	3	7
Gifts to the Crown	S	S
Deferrals		
Fast write-off for Canadian development expenses	64	95
Fast write-off for Canadian exploration expenses	213	336
Fast write-off for capital equipment used for scientific research and experimental development	S	4
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	17	30
Memorandum items		
Excess of tax depreciation over book depreciation	-55	-33
Refundable Part I tax on investment income of private corporations	S	S
Loss carry-overs		
Non-capital losses	188	126
Meals and entertainment expenses	8	14
Patronage dividend deduction by credit unions and co-operatives	S	5

Mining

	1989	1990
	(millions of dollars)	
Tax rate reductions		
Low tax rate for small businesses	17	21
Low tax rate for manufacturing and processing	S	S
Tax credits		
Investment tax credits		
SR&ED Investment Tax Credit	13	21
Atlantic Canada Investment Tax Credit	31	11
Cape Breton Investment Tax Credit	S	3
ITCs claimed in current year but earned in prior years	17	8
Political contributions tax credit	S	S
Exemptions and deductions		
Partial inclusion of capital gains	28	31
Resource allowance		
Resource allowance in lieu of deductibility of provincial royalties	194	111
Earned depletion	61	10
Deductibility of itemized charitable donations	S	S
Gifts to the Crown	S	S
Deferrals		
Fast write-off for Canadian development expenses	78	61
Fast write-off for Canadian exploration expenses	110	110
Fast write-off for capital equipment used for scientific research and experimental development	S	S
Allowable business investment loss	S	S
Other tax measures		
Transfer of income tax room to provinces in respect of shared programs	13	9
Memorandum items		
Excess of tax depreciation over book depreciation	89	18
Refundable Part I tax on investment income of private corporations	4	8
Loss carry-overs		
Non-capital losses	51	36
Meals and entertainment expenses	4	4

Footnotes to corporate income tax expenditures table:

1. The decrease in revenue cost for the low tax rate on small businesses was due to the decline in taxable income between 1989 and 1990.
2. The increase in revenue cost for the preferential tax rate on M&P profits was due to the one-percentage-point increase in the M&P deduction between the two years.
3. There were about 500 more claimants for the SR&ED ITC in 1990 than in 1989.
4. The lower value for 1990 is largely due to the lower (one-quarter instead of one-third) exemption rate of capital gains and the amount of capital gains realized. Because the exemption rate was decreasing between the two years, taxpayers would have had an incentive to realize capital gains in 1989 instead of 1990 wherever possible.
5. The lower number for 1990 reflects a drop in industry profits (and thus the income tax base) from 1989.
6. The reduction in accelerated CCA rates announced under tax reform in 1988 were phased-in over a number of years. Consequently, the revenue cost that arises from the excess of tax depreciation over book depreciation diminishes over time.
7. The lower number for 1990 reflects a drop in Canadian investment income from $10 billion in 1989 to $6.4 billion in 1990.
8. The fall in the tax expenditure is due to the increase in the inclusion rate for capital gains from two-thirds to three-quarters between 1989 and 1990.
9. The higher revenue cost of non-capital losses was due to the lower profits being earned in 1990 and the higher non-capital losses that were incurred, which could be carried back to prior years.
10. The lower revenue cost from the deductibility of meals and entertainment expenses was due to the recession in 1990.
11. The smaller value for the $10 million LCT threshold in 1989 was due to the tax coming into effect on July 1, 1989 instead of January 1, 1989. Consequently, the revenue impact for 1989 is not for the full year.

APPENDIX A

DESCRIPTION OF PERSONAL TAX PROVISIONS

The descriptions of the specific tax measures contained in this appendix are intended as a simplified reference. It should be noted that the explanations refer to the 1989, 1990 and 1991 taxation years. Since that time, some provisions have been altered.

A number of measures which primarily affect corporations, but also have an impact on non-incorporated businesses, are treated under the corporate income tax measures section.

Explanations of the methodologies used to produce the estimates are provided where they deviate from the standard approach of using the personal income tax simulation model described in the main text.

Culture and Recreation

Non-taxation of capital gains on gifts of cultural property

Certain objects certified as being of cultural importance to Canada are exempt from capital gains tax if donated to a designated museum or art gallery.

Information on the gross amount of such donations is available. It amounted to $43 million in 1989, $57 million in 1990, and $58 million in 1991. However, there is no information on the proportion of the value which is attributable to capital gains.

Non-taxation of lottery and gambling winnings

Lottery and gambling winnings are excluded from income for tax purposes.

The estimate for the non-taxation of winnings in government lotteries is based on information provided by Statistics Canada. Values for the non-taxation of winnings from horse racing are estimated using data provided by Agriculture Canada.

The values may underestimate the true cost of this provision since there are no accurate data available on income from other types of gambling such as bingo. No adjustments are made for the possible deductibility of lottery ticket purchases which might accompany the taxation of lottery and gambling winnings.

Deduction for certain contributions by individuals who have taken vows of perpetual poverty

Where a person has taken a vow of perpetual poverty as a member of a religious order, that person may deduct donations to the religious order up to his/her total employment and pension income (but not investment or other income) in lieu of the charitable donations credit.

Deduction for clergy residence

A taxpayer who is a full-time member of the clergy or regular minister of a religious denomination may deduct housing costs from income for tax purposes. Housing allowances provided by employers are not included in income.

The estimate for this item is based on the number of clergy in Canada and Statistics Canada expenditure data on rent.

Flow through of CCA on Canadian films

The capital cost allowance (CCA) rate generally available on films is 30 per cent subject to the half-year rule. On "certified Canadian films", the half-year rule does not apply. The CCA may be flowed through to investors and deducted against their other sources of income. An additional allowance of up to the remaining undepreciated capital cost of the film is deductible against an investor's income from certified Canadian films. Investments in television commercials may be depreciated at a rate of 100 per cent.

The estimate for this item is computed by eliminating the film-related CCA claimed by individuals. Accordingly, the value may overestimate the true cost of the measure to the extent that some CCA might otherwise have been claimed at the corporate level.

Write-off of Canadian art purchased by unincorporated businesses

Canadian art acquired by businesses for display in an office may be depreciated on a 20 per cent declining balance basis even though Canadian art may depreciate at a much slower rate, and may even appreciate.

No data are available.

Assistance for artists

Visual artists may exclude the value of inventory in computing income instead of including the cost or the fair market value of such inventory. Thus, artists benefit from a deferral since they may write off the costs involved in creating a work of art in the year they are incurred rather than waiting until the work is sold.

Artists may also elect to value a charitable gift from their inventories at any amount up to its fair market value. This value is then used to determine the artist's income and the amount that qualifies for the charitable donations credit. The restriction that donations eligible for the charitable donations credit cannot exceed 20 per cent of income does not apply.

No data are available.

Deduction for artists and musicians

Employed musicians are able to claim the cost of maintenance, rental, insurance and capital cost allowance on musical instruments against employment income earned as a musician.

Since 1991, employed artists have been entitled to deduct expenses related to their artistic endeavours up to the lesser of $1,000 or 20 per cent of their income derived from employment in the arts.

No data are available

Education

Exemption on first $500 of scholarship, fellowship and bursary income

The first $500 of scholarship, fellowship and bursary income is exempt from tax.

The values reported in the table are understated since no data are available on individuals receiving scholarship, fellowship or bursary income of less than $500.

Deduction of teachers' exchange fund contributions

Teachers may deduct up to $250 per year in contributions to a fund established by the Canadian Education Association for the benefit of teachers from Commonwealth countries visiting Canada under a teachers' exchange agreement.

Tuition fee credit

A 17 per cent tax credit is available for tuition fees paid by students to prescribed educational institutions. The credit is not available if the total tuition fees paid to that institution are $100 or less. Amounts not used by the student may be transferred to a supporting spouse, parent or grandparent.

Education credit

Students who are enrolled at prescribed educational institutions on a full-time basis were entitled to claim a tax credit of 17 per cent of $60 for every month of full-time attendance ($80 starting in 1992). Amounts not used by the student may be transferred to a supporting spouse, parent or grandparent.

Education and tuition credits transferred

The unused amounts of the education credit and the tuition fee credit, up to 17 per cent of $3,529, may be transferred to a supporting spouse, parent or grandparent (limit raised to $4,000 starting in 1992).

Registered education savings plans

A taxpayer may contribute to a registered education savings plan on behalf of a designated beneficiary (usually the taxpayer's child). The investment return on these funds is not taxable until it is withdrawn by the beneficiary for educational purposes. It is taxable in the hands of the beneficiary rather than the contributor.

No data are available.

Employment

Non-taxation of certain non-monetary employment benefits

Certain fringe benefits provided to employees by their employers are not taxable. Examples include subsidized meals in staff cafeterias, subsidized recreational facilities and special clothing.

No data are available.

Non-taxation of strike pay

Strike pay is non-taxable.

The estimates are based on data extracted from Statistics Canada's *Annual Report of the Minister of Industry, Science and Technology Under the Corporations and Labour Unions Return Act Part II, Labour Unions* (Cat. 71-202).

Non-taxation of allowances for volunteer firefighters

Volunteer firefighters may receive up to $500 per year of allowances which are not taxable.

The estimates are based on census data.

Northern benefits deduction

Individuals living in prescribed areas in Canada for a specified period may claim a deduction of up to $7.50 a day, as well as deductions for two employer-provided vacation trips per year and unlimited employer-provided medical travel.

A new definition of prescribed areas came into force in 1991. Certain communities, which are not eligible for the northern benefit deduction under the new definition but which had qualified under the pre-1991 regime, will continue to receive a gradually diminishing deduction until 1995.

Deduction of home relocation loans

Employees may receive a subsidized home relocation loan from their employers of up to $25,000 for five years without having to include the benefit in income.

Deferral of salary through leave of absence/sabbatical plans

Employees may be entitled to defer salaries through a leave of absence/sabbatical plan. These amounts are not subject to tax until received.

No data are available.

Employee benefit plans

In certain circumstances, employers may make contributions to an "employee benefit plan" on behalf of their employees. The employee is not required to include in income either the contributions to the plan or the investment income earned within the plan until amounts are received.

No data are available.

Overseas employment credit

An 80-per-cent tax credit is available to Canadian employees working abroad for more than six months in connection with a resource, construction, installation, agricultural or engineering project. The credit applies on Canadian tax otherwise payable on up to $100,000 of net overseas employment income taxable in Canada.

Employee stock options

Employees are not generally required to report any employment benefit on employer-provided stock options until the option is exercised. At that time, a deduction of one-quarter of the difference between the option price and exercise price is provided (one-third in 1989). This provides both a deferral of tax and a preferential rate.

The estimates are computed by eliminating the deduction, and therefore does not capture the deferral benefit.

Family

Deferral of capital gains through transfer to spouse

Individuals may transfer capital property to their spouses or spousal trusts at the adjusted cost base of the property rather than the fair market value. This provides a deferral of the capital gain until the subsequent disposition of the property.

Property transferred to other family members or to unrelated individuals (or to trusts of which they are beneficiaries) is treated differently. The transferor is deemed to have disposed of the property at the time of transfer and must include in his or her income at that time any resulting capital gain.

Once the property has been transferred to a trust, the tax treatment once again differs depending on whether or not the beneficiary of the trust is a spouse. For spousal trusts, capital gains are not subject to tax until the beneficiary spouse dies or the property is transferred to another beneficiary. For non-spousal trusts, capital gains are subject to tax not only when property is transferred to the beneficiary, but also periodically while it remains in the trust. These periodic deemed dispositions generally occur every 21 years. However, the period can be extended until the rights of beneficiaries expire, provided those beneficiaries are the children or other qualifying beneficiaries of the individual who created the trust.

No data are available.

Married credit

A married taxpayer supporting a spouse was entitled to a tax credit of 17 per cent of $5,055 in 1989. This was reduced by the amount by which the dependent spouse's income exceeded $506. The levels were increased to $5,141 and $514 in 1990, and to $5,233 and $524 in 1991.

Equivalent-to-married credit

An "equivalent-to-married" tax credit may be claimed by single parents for a dependent child. The amount of the credit and the limitation on the dependent child's income are the same as those of the married credit.

Dependant credit

Taxpayers could claim a credit in respect of children and other qualified dependent relatives who are either under the age of 18 or mentally or physically infirm. In 1989, the tax credit was $392 for each of the first two dependants, $748 for each additional dependant and $1,487 for each infirm dependant. These amounts were reduced by the amounts of the dependant's income in excess of $2,528. The amounts for 1990 were $399, $798, $1,512 and $2,570 respectively, and $406, $812, $1,540 and $2,617 respectively for 1991. The credit for dependants under the age of 18 was replaced by the child tax benefit for 1993 and subsequent years.

Refundable child tax credit

Individuals receiving family allowances were entitled to an income-tested refundable child tax credit. The basic amount was $565 in 1989, $575 in 1990, and $585 in 1991. A supplement of $200 for 1989, $203 for 1990, and $207 in 1991 was available for each child under the age of seven. This supplement was reduced by 25 per cent of all child care expenses claimed as a deduction. The combined credit was reduced by 5 per cent of the amount of the parents' net income in excess of $24,355 for 1989, $24,769 for 1990, and $25,215 for 1991. The credit was replaced by the child tax benefit for 1993 and subsequent years.

Farming and Fishing

$500,000 lifetime capital gains exemption for farm property

A $500,000 lifetime capital gains exemption is available for gains in respect of the disposition of qualified farm property. This represents an amount of $400,000 in addition to the basic $100,000 capital gains exemption. The exemption is available only to the extent that the gains exceed cumulative net investment losses incurred after 1987.

Cash basis accounting

Generally, taxpayers must use accrual accounting for calculating their business income. However, individuals engaged in farming and fishing may elect to use the cash basis of accounting for tax purposes except in respect of depreciable assets. Under cash accounting, revenues are included in income only when received and expenses are deductible when actually paid. This permits a deferral of tax, in that costs paid are deductible immediately despite the fact that the resulting income may not arise until a later year.

No data are available.

Deferral of income from destruction of livestock

Where there has been a forced destruction of livestock due to disease, farmers may elect to include the resulting compensation in income in the following year. A similar measure exists for disposal of certain livestock from drought-affected areas.

Deferral of income on grain sold through cash purchase tickets

Under the cash purchase ticket program of the Canadian Wheat Board, farmers may make deliveries of grain before the year-end and receive payment in the form of a ticket that may be cashed in subsequent years. The payment is included in taxable income only when the ticket is cashed.

In 1989, 1990 and 1991, the amount of cash tickets outstanding declined and so gave rise to negative estimates.

Deferral of capital gain through intergenerational rollovers of family farms

Sales or gifts of assets to children, grandchildren or great-grandchildren typically give rise to taxable capital gains to the extent that the fair market value exceeds the cost base of the property. However, capital gains on intergenerational transfers of farm property are deferred until the property is disposed of outside the immediate family.

No data are available.

Exemption from making quarterly tax instalments

Taxpayers earning business income must normally pay quarterly income tax instalments. However, individuals engaged in farming and fishing pay two-thirds of their estimated tax payable at the end of the taxation year and the remainder on or before April 30 of the following year.

No data are available.

Deferral through ten-year capital gain reserve

If proceeds from a sale of a farm property to a child, grandchild or great-grandchildren are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10 per cent of the gain must be brought into income each year, creating a maximum ten-year reserve period. Amounts brought back into income from reserves exceeded amounts set aside in newly-established reserves in 1990 and 1991, giving rise to negative tax expenditures. For most other assets the maximum reserve period is five years.

Flexibility in inventory accounting

Under cash basis accounting, net additions to inventory are treated as a cost which is deducted in computing income. Consequently, farmers who are expanding their operations (for example, their herds) may find themselves in a loss position for tax purposes. However, at the farmer's discretion, an amount may be added to income each year of up to the fair market value of inventory on hand at year-end. This amount must then be deducted from income the following year. This provision allows farmers to avoid the time limit associated with loss carry-overs and make the fullest use of other available tax measures.

No data are available.

Federal/Provincial Financing Arrangements

Quebec abatement

Under the contracting-out arrangements which were offered to provinces in the mid-1960s for certain federal transfer programs, provinces could elect to receive part of the federal contribution in the form of a tax point transfer. Quebec was the only province to elect this arrangement at the time and this has resulted in a 16.5-percentage-point abatement of federal tax for Quebec residents.

Transfers of income tax room to provinces

In 1967, the federal government transferred tax points to all provinces in place of certain direct cash transfers under the cost-shared program for post-secondary education. As a result, the personal income tax abatement was increased by 4 percentage points. In 1977, an additional 9.5 percentage points of individual income tax were provided to the provinces in respect of post-secondary, hospital insurance, and medicare programs.

General Business and Investment

$1,000 capital gains exemption on personal-use property

Personal-use property is held primarily for the use and enjoyment of the owner rather than as an investment.

In calculating the capital gain on personal use property, if the proceeds of disposition are less than $1,000, no capital gains need to be reported. If the proceeds exceed this amount, the Adjusted Cost Base (ACB) will be deemed to be a minimum of $1,000, thus reducing the capital gain in situations where the true ACB is less than $1,000.

No data are available.

$200 capital gains exemption on foreign exchange transactions

The first $200 of net capital gains on foreign exchange transactions is exempt from tax.

No data are available.

$100,000 lifetime capital gains exemption

The first $100,000 of lifetime capital gains realized by individuals is non-taxable. The exemption is available only to the extent that the gains exceed cumulative net investment losses incurred after 1987. Tax expenditures associated with capital gains realized on exempt qualified farm property and exempt qualified small business shares are listed separately. In the absence of those measures, many of those capital gains would qualify for the $100,000 lifetime capital gains exemption.

Partial inclusion of capital gains

Net realized capital gains accrued since 1972 were included in income at a rate of two-thirds in 1989. This inclusion was increased to three-quarters effective 1990.

Taxation of capital gains upon realization

Capital gains are taxed upon the disposition of property and not when they accrue. This provides a tax deferral.

No quantitative estimates are available.

Deduction of research and development expenditures

All research and development (R&D) expenditures may be deducted immediately, despite the fact that some of these expenditures are capital in nature (i.e., designed to produce future income).

The estimates are calculated by assuming that 15 per cent of R&D expenditures are of a capital nature. In the absence of this R&D provision, these amounts would have been depreciated over several years (subject to CCA rules) rather than immediately. The proportion of R&D that is of a capital nature is estimated from Statistics Canada, Industrial Research and Development Statistics. The tax expenditure represents the impact of expensing R&D expenditure of a capital nature in the year the expenditure is made.

Deduction of limited partnership losses

A limited partner is able to deduct losses against other income up to the amount of investment at risk whereas a shareholder is normally not permitted to deduct corporate losses against personal income. Unused losses may be carried back three years or forward seven years and are deductible up to the amount of investment at risk.

Deferral through capital gains rollovers

In certain circumstances, taxpayers may defer the reporting of capital gains for tax purposes. General business rollover provisions may be categorized into three groups:

Involuntary dispositions

Capital gains resulting from an involuntary disposition (e.g., insurance proceeds received for an asset destroyed in a fire) may be deferred if the funds are reinvested in a replacement asset within a specified period. The capital gain is taxable upon disposition of the replacement property.

Voluntary dispositions

Capital gains resulting from the voluntary disposition of land and buildings by businesses may be deferred if replacement properties are purchased soon thereafter (for example, a business changing location). The rollover is not available for properties used to generate rental income.

Transfers to a corporation for consideration including shares

Individuals may sell an asset to a corporation controlled by them or their spouses and elect to roll over the capital gain into the corporation instead of paying tax in the year of sale.

No data are available.

Deferral through billed-basis accounting by professionals

In computing their income for tax purposes, professionals may elect to use either an accrual or a billed-basis accounting method. Using the latter means that costs of work in progress may be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment is not typically available for other businesses but is analogous to cash basis accounting for farmers.

No data are available.

Deferral through five-year reserve

If proceeds from a sale of capital property are not all receivable in the year of the sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds are received. A minimum of 20 per cent of the gain must be brought into income each year. Amounts brought back into income from reserves exceeded amounts set aside in newly-established reserves, giving rise to negative tax expenditures in 1990 and 1991.

Investment tax credit

A tax credit is available for investments in research and development, exploration activities and certain regions. The tax credits ranged from 15 per cent to 45 per cent in 1989, 1990 and 1991. The estimates treat the full investment tax credit as a tax expenditure even though tax credits reduce the capital cost of assets for CCA purposes and the Adjusted Cost Base for capital gains purposes.

Health

Non-taxation of employer-paid insurance premiums for private health and welfare plans

Employer-paid premiums for private health and welfare insurance plans, including dental plans, are not taxable.

The estimates are based on data from Statistics Canada.

Disability credit

Canadians who are markedly restricted in the basic activities of daily living are entitled to a tax credit. The credits were 17 per cent of $3,272 in 1989, $3,327 in 1990 and $4,118 for 1991. The unused amount of the credit may be transferred to a supporting person.

Medical expenses credit

Taxpayers are entitled to a 17 per cent credit on eligible medical expenses incurred by the taxpayer, the taxpayer's spouse or by dependants. The credit was available for expenses which exceeded the lesser of 3 per cent of net income or $1,517 in 1989, $1,542 in 1990 and $1,570 in 1991.

Income Maintenance and Retirement

Non-taxation of guaranteed income supplement and spouse's allowance payments

The guaranteed income supplement (GIS) is paid to old age security (OAS) pensioners who have low incomes. If the spouse of an OAS recipient is between the ages of 60 and 64 years then that person may be eligible for the spouse's allowance. Payments under both the guaranteed income supplement and the spouse's allowance programs are non-taxable.

The non-taxation of income-tested programs such as the guaranteed income supplement or provincial social assistance presents conceptual difficulties with respect to their status as tax expenditures. The problems arise because, in many respects, these programs operate like an income tax in that eligibility for benefits is phased out after a certain income level. In this regard, excluding such benefits from income tax might not be considered a tax expenditure since they are subject to their own "tax". On the other hand, a broadly-based benchmark tax system would include such amounts in income. Given the comprehensive approach taken in this document, these items are considered to be tax expenditures.

The estimates are based on data from the Health and Welfare Canada publication, *Statistics Related to Income Security Programs.*

Non-taxation of social assistance payments

Social assistance payments received by low-income Canadians must be included in income. However, an offsetting deduction is provided. This approach effectively exempts such assistance from taxation while continuing to have it affect income-tested credits.

The estimates are based on data from the Statistics Canada *Yearbook.*

Non-taxation of worker's compensation payments

Worker's compensation payments must be included in income. However, an offsetting deduction is provided. This approach effectively exempts such payments from taxation while continuing to have them affect income-tested credits.

The estimates are based on data from the Statistics Canada *Yearbook.*

Non-taxation of certain income from personal injury awards

Where a person has suffered mental or physical injury and has received a personal injury award, the investment income earned on such an award is excluded from tax until the end of the year in which the person reaches the age of 21.

No data are available.

Non-taxation of up to $10,000 of death benefit

Up to $10,000 of death benefit paid by an employer to the spouse of a deceased employee is non-taxable.

No data are available.

Non-taxation of employer-paid premiums for group term life insurance of up to $25,000

Employer-paid premiums for group term life insurance coverage of up to $25,000 per employee are not taxable.

The estimates are based on data from Statistics Canada and assume that the average amount of employer provided insurance is $60,000.

Non-taxation of RCMP pensions/compensation for injury, disability or death

Pension payments, allowances and other compensation received in respect of an injury, disability or death associated with service in the Royal Canadian Mounted Police are non-taxable.

The estimates are based on Public Accounts data.

Non-taxation of veterans' allowances, civilian war pensions and allowances and other service pensions (including those from allied countries)

These amounts are non-taxable.

The estimates are based on Public Accounts data.

Non-taxation of veterans' disability pensions and support for dependants

These amounts are non-taxable.

The estimates for this item are based on Public Accounts data.

Non-taxation of investment income on life insurance policies

The investment income earned on some life insurance policies is not taxed as income to the policy holder. Instead, for reasons of administrative convenience, insurance companies are subject to tax on such earnings.

(See Business Income Tax Expenditures for a further description of this measure and estimates of the tax expenditures involved.)

Treatment of alimony and maintenance payments

Payments by a taxpayer to a divorced or separated spouse are deductible to the payer and taxable in the hands of the recipient.

This treatment represents a tax expenditure because it departs from the benchmark system established for purposes of this report. Under this benchmark tax system, deductions are permitted only for expenses incurred in order to generate business or investment income and transfers from other individuals are not included in income.

The estimates for this item are computed as the value of the deduction to the payer less the tax collected from the recipient.

Age credit

Individual taxpayers aged 65 or over were entitled to claim a tax credit of 17 per cent of $3,272 in 1989, $3,327 in 1990 and $3,387 in 1991. Unused portions may be transferred between spouses.

Pension income credit

A 17 per cent tax credit is available on up to $1,000 of certain pension income. The unused portion of the credit may be transferred between spouses.

Saskatchewan pension credit

Contributions to the Saskatchewan Pension Plan are deductible up to the lesser of $600 or the amount of unused RRSP room in a particular year.

Registered retirement savings plans/registered pension plans

The federal revenue forgone due to the provisions pertaining to registered retirement savings plans (RRSPs), registered pension plans (RPPs) and deferred profit sharing plans (DPSPs) is a function of three components: the deductibility of contributions to such plans; the non-taxation of investment income accrued within such plans, and the income inclusion of RRSP/RPP withdrawals which reduces the tax expenditure resulting from the previous two. Individuals benefit from a deferral of tax on amounts contributed and on investment income. Also, there is an absolute tax saving to the extent that the tax rate on withdrawals is below that faced at the time of contribution.

In 1989 and 1990 the annual RRSP contribution limits were the lesser of $7,500 and 20 per cent of earned income for those individuals who were not part of an RPP or DPSP. For individuals who were members of such plans, the RRSP contribution limits were $3,500 (or 20 per cent of earned income) less employee RPP contributions. The contribution limits for money purchase RPPs were $3,500 for the employer and $3,500 for the employee, for a total contribution limit of $7,000. There were no fixed limits on employee contributions to defined benefit plans although deductible employer contributions were limited to the amounts necessary to provide for full funding of the promised benefit, after taking employee contributions into account.

In 1991, a new system of comprehensive limits on tax-assisted retirement saving took effect. Under this system, saving in RRSPs, RPPs and DPSPs is governed by a comprehensive limit of 18 per cent of earnings up to a dollar amount. In more detail, the limits for 1991 were as follows:

- For defined benefit pension plans, the limits were the same as in 1990: that is, there were no fixed limits on employee contributions while employer contributions were restricted to the amounts necessary to fully fund the promised benefits. Annual benefits under these pension plans are limited to the lesser of $1,722 and 2 per cent of best average earnings for each year of pensionable service.
- For RRSPs, contributions were limited to 18 per cent of 1990 earned income (or $11,500 if less) minus a Pension Adjustment (PA). The PA for 1991 was based on RPP or DPSP benefits earned by plan members in 1990. For a money purchase RPP or a DPSP, the PA is simply the total contribution made by or on behalf of a plan member in the year. For a defined benefit RPP, the PA is the cost of benefits earned in the year, calculated according to a prescribed formula.

It should be noted that the RRSP/RPP tax expenditure estimates do not reflect a mature system because contributions currently exceed withdrawals. Assuming a constant tax rate, if contributions equalled withdrawals, only the non-taxation of investment income would contribute to the net tax expenditure. As time goes by and more retired individuals have had the opportunity to contribute to RRSPs throughout their lifetime, the gap between contributions and withdrawals will shrink and possibly even become negative. An upward bias in the current estimates can therefore be expected to decline.

The estimates may not reflect the benefit to a particular individual in any given year because the individual is typically either a contributor or withdrawer at a point in time but not both. In order to estimate the benefit to a particular individual one could calculate the difference in disposable income between a situation in which that individual invests in an RRSP/RPP and one in which that individual invests in a non-sheltered savings instrument.

Data used to estimate the value of these measures were taken from the personal income tax model, unpublished data from Statistics Canada, and from Statistics Canada publications *Trusteed Pension Funds* (Cat. 74-201) and *Pension Plans in Canada* (Cat. 74-401), as well as from the Bank of Canada *Review*.

Deferred profit sharing plans

Employers may make tax deductible contributions to a profit sharing plan on behalf of their employees. These amounts are taxable in the hands of the employees when withdrawals are made from the plan. The employer's contribution cannot exceed the lesser of $3,500 per employee (less any contributions by the employer to an RPP in respect of the employee) or 20 per cent of the employee's earnings.

No data are available.

Resource Sector

Deduction of resource-related expenditures

Individuals are entitled to deduct certain expenses associated with the exploration for, and development of, Canadian natural resources. These expenses may be deductible by virtue of the individual either personally engaging in resource-related activities or providing financing to another party who "flows through" the related tax deductions to the individual.

The available data do not permit a separation of expenses which are flowed through to passive investors and those which are incurred directly. The estimates should therefore be interpreted as an upper bound. Amounts incurred directly would normally be legitimate expenses for the purposes of earning income. The deductibility would therefore not constitute a tax expenditure.

Assistance for prospectors and grubstakers

Where a prospector or grubstaker disposes of mining property to a corporation in exchange for shares in that corporation, the tax liability is deferred until the subsequent disposition of the shares. At that time, only three-quarters (two-thirds in 1989) of the amount for which the mining property was transferred to the corporation need be included in income.

Small Business

$500,000 lifetime capital gains exemption for small business shares

A $500,000 lifetime capital gains exemption is available for gains in respect of the disposition of qualified small business shares. This represents an amount of $400,000 in addition to the basic $100,000 capital gains exemption. The exemption is available only to the extent that the gains exceed cumulative net investment losses incurred after 1987.

Non-taxation of capital dividends

Private corporations may distribute the exempt one-quarter of any realized capital gains accumulated in their "capital dividend account" to their shareholders in the form of a capital dividend. This dividend is non-taxable.

No data are available.

Deduction of allowable business investment losses

Capital losses arising from the disposition of shares and debts are generally deductible only against capital gains. However, if the capital loss is in respect of shares or debts of a small business corporation, 75 per cent may be used to offset other income. Unused allowable business investment losses may be carried back three years and forward seven years. After seven years, the loss reverts to a capital loss and may be carried forward indefinitely.

To the extent that capital losses could be written off against capital gains in current or other years, they are not tax expenditures. The estimates here make no allowance for this factor and are therefore an upper bound.

Labour-sponsored venture capital credit

A 20 per-cent-tax credit is available on up to the first $3,500 ($5,000 for 1992 and subsequent years) invested each year in Labour-Sponsored Venture Capital Corporations.

Stock options for CCPC employees

In addition to the general stock option tax treatment, employees of Canadian Controlled Private Corporations (CCPCs) receive a further deferral advantage since they need not include the calculated employee benefit in their income until they dispose of the shares. For other employees this amount must be included when the option is exercised.

No data are available.

Deferral through ten-year capital gain reserve

If proceeds from a sale of a small business shares to children, grandchildren or great-grandchildren are not all receivable in the year of sale, realization of a portion of the capital gain may be deferred until the year in which the proceeds become receivable. However, a minimum of 10 per cent of the gain must be brought into income each year creating a maximum ten-year reserve period. This contrasts with the treatment of most other assets where the maximum reserve period is five years. In the years under review, amounts brought back into income from reserves exceeded amounts set aside in newly-established reserves, giving rise to negative tax expenditures.

Other Items

Non-taxation of income of Indians on reserves

The income of Indians is exempt if located on a reserve.

No data are available.

Non-taxation of income from War Savings Certificates/Victory Bonds

Income earned on these instruments is non-taxable.

The estimates are based on Bank of Canada data.

Non-taxation of capital gains on principal residences

Capital gains realized on the disposition of a taxpayer's principal residence are non-taxable. The capital gains were determined using Multiple Listing Service (MLS) housing prices, adjusted to include expenditures on capital repairs and major additions and renovations, obtained from Statistics Canada's Consumer Expenditure Survey. The holding period for principal residences was derived from 1981 Census data.

Estimates for this item are provided for both partial and full inclusion rates for capital gains.

Non-taxation of gifts and bequests

Gifts and bequests are not included in the income of the recipient for tax purposes.

No data are available.

Non-taxation of income from the Office of the Governor General

This income is exempt from personal income taxation.

Data were provided by the Office of the Governor General.

Charitable donations credit

A tax credit is available for donations of up to 20 per cent of net income made to registered charities. Donations in excess of 20 per cent of net income may be carried forward for up to five years. The 20 per cent restriction does not apply to gifts of cultural property to museums and art galleries. The credit is 17 per cent on the first $250 of donations and 29 per cent on donations in excess of $250.

Gifts to the Crown credit

A tax credit is available for gifts to the Crown. The credit is 17 per cent on the first $250 of donations and 29 per cent on donations in excess of $250. Unused contributions may be carried forward for up to five years.

Political contributions credit

A credit is available for donations to registered federal political parties. The credit is 75 per cent of the first $100 of contributions, 50 per cent on the next $450 of contributions and 33 1/3 per cent on the next $600. The maximum credit claimable in any year is $500.

Memorandum Items

Non-taxation of allowances for certain public officials

Members of Parliament (MPs) and provincial legislatures (MPPs), Senators and some other public officials receive a flat amount per annum in addition to their salaries. These amounts are not included in income for tax purposes.

Data are available only for the non-taxable allowances provided to MPs, MPPs and Senators. This information is found in the publication Canadian Legislatures.

This provision is a memorandum item because the allowances are designed to cover the additional expenses associated with holding public office.

Non-taxation of allowances for diplomats and other government employees posted abroad

Diplomats and other government employees posted abroad receive a non-taxable income supplement to cover the additional costs associated with living outside Canada.

Estimates are based on information obtained from Treasury Board.

Child care expense deduction

Child care expenses are deductible if incurred for the purpose of earning employment income, taking an occupational training course or carrying on research for which a grant is received. For 1989, 1990 and 1991, the deduction could not exceed $4,000 per child if the child was under seven or was disabled, $2,000 per child between seven and 14 years of age, or two-thirds of earned income for the year. The deduction must generally be claimed by the spouse with the lower income. However, the higher income parent may claim a deduction if the lower income parent is infirm, confined to a bed or wheelchair, in prison, or attending a designated educational institution on a full-time basis.

This provision is a memorandum item because child care expenses may be considered an expense of earning taxable income.

Moving expense deduction

All reasonable moving expenses (e.g. transportation, meals and temporary accommodations) are deductible from income if the taxpayer moves at least 40 kilometres closer to the place of employment. Moving expense reimbursements provided by employers are not included in income.

The estimates do not include non-taxable reimbursements received from employers.

Deduction of carrying charges incurred to earn income

Interest and other carrying charges, such as investment counselling fees and safety deposit box charges, incurred to earn business or investment income are deductible.

Some might consider the deductibility of such expenses to be a tax expenditure because of the tax deferral arising from the up-front deduction of expenses associated with the earning of income which will not be taxed until received possibly in future years. Others would hold that carrying charges are incurred for the purpose of earning income and therefore represent part of the benchmark income tax system.

Deduction of meals and entertainment expenses

Reasonable expenditures on food, beverages and entertainment incurred in earning business income are normally deductible in computing a taxpayer's income. Prior to tax reform in 1988, 100 per cent of business meals and entertainment expenses were deductible for tax purposes. However, in recognition of the fact that there is an element of personal benefit in these expenditures, tax reform reduced the amount that is deductible to 80 per cent.

Meals and entertainment expenses are considered to be a memorandum item because the amount that should be deductible under a benchmark system is debatable.

The amounts shown for this measure reflect the forgone revenue from allowing 80 per cent of these expenses to be deductible.

Deduction of farm losses for part-time farmers

Individuals whose major source of income is not farming are allowed to deduct farm losses up to a maximum of $8,750 against other income.

Part-time farm losses which are not deductible in the current year may be carried back three years and forward ten years to deduct against non-farm income. The estimates include the cost of these carry-overs.

Farm and fishing loss carry-overs

Farm and fishing losses may be carried back three years and forward ten years and deducted against other income.

The only data which are available are the amount of prior years' losses carried forward to the current year. In this regard, the estimates do not include current year losses carried forward to the future or back to the past, nor do they include future losses carried back to the taxation year in question. The estimates also do not include losses carried over by part-time farmers.

Deduction for logging

Individuals may deduct some portion of provincial logging tax paid when computing federal income tax.

Capital loss carry-overs

Net capital losses may be carried back three years and forward indefinitely to offset capital gains of other years.

The only data which are available are the amount of prior years' losses carried forward to the current year to reduce taxes payable. The estimates do not include current year losses carried forward to the future or back to the past nor do they include future losses carried back to the taxation year in question.

Non-capital loss carry-overs

Non-capital losses may be carried back three years and forward seven years to offset other income.

The only data which are available are the amount of prior years' losses carried forward to the current year to reduce taxes payable. Thus, the cost estimates may understate the true amount of revenue forgone because they do not include current year losses carried forward to the future or back to the past nor do they include future losses carried back to the taxation year in question.

Deduction of accelerated tax depreciation not reported elsewhere

The depreciation allowable for tax purposes is called capital cost allowance (CCA). It may be greater than true economic depreciation. A tax deferral may thus be created when the tax deductions in the early years of the life of an asset exceed the actual depreciation in the value of the asset. The difference is captured upon subsequent disposition of the asset.

The estimates are based upon a comparison of CCA and book depreciation. Since book depreciation does not necessarily represent the true economic depreciation, it is not possible to calculate the value of this measure with a high degree of accuracy. Consequently, this deduction is reported as a memorandum item. A more detailed explanation is provided in Appendix B.

Deduction of other employment expenses

Employee expenses are generally not deductible. However, certain specific employment expenses (e.g. automobile expenses incurred by self-employed individuals) are deductible in certain circumstances in the computation of income.

Deduction of union and professional dues

Union and professional dues are fully deductible from income.

The mandatory nature of these payments leads to their classification as expenses to earn income.

Unemployment insurance contribution credit/non-taxation of employer-paid premiums

A 17 per cent tax credit is provided for unemployment insurance contributions. Employer-paid premiums are not included in income.

The mandatory nature of unemployment insurance contributions leads to their classification as expenses incurred to earn income.

Canada and Quebec Pension Plan credit/Non-taxation of employer-paid premiums

A 17 per cent tax credit is provided for Canada/Quebec Pension Plan contributions by both employees and the self-employed. Employer-paid premiums are not included in income.

Again, since CPP/QPP contributions are mandatory, they are classified as expenses incurred to earn income.

Foreign tax credit

In order to avoid double taxation, a tax credit is provided in recognition of income taxes paid in foreign countries.

Dividend gross-up and credit

In order to avoid double taxation, dividends received from taxable Canadian corporations are "grossed-up" by a factor of one-quarter and included in income. A tax credit equal to 13.33 per cent of the grossed-up amount is then provided.

Federal sales tax credit

Eligible individuals could claim a refundable federal sales tax credit for themselves, their spouse and "qualified relations". In 1989 the self and spousal credits were $100 and the qualified relations credit was $50; in 1990, the credits were increased to $140 for both the individual and spouse, and $70 for qualified relations. The credit was phased out for incomes in excess of $18,000.

For the 1991 taxation year, the federal sales tax credit was replaced by the Goods and Services Tax Credit (GST). Estimates for the GST Credit will be published as part of the forthcoming Sales Tax Expenditures document.

Basic personal credit

All taxpayers receive a 17-per-cent basic personal credit calculated on a base of $6,060 in 1989; $6,169 in 1990; and $6,280 in 1991.

APPENDIX B

DESCRIPTION OF CORPORATE INCOME TAX PROVISIONS

The descriptions of the specific tax measures contained in this appendix are intended as a simplified reference. It should be noted that the explanations refer to the 1989 and 1990 taxation years. Since that time, a number of provisions have been altered.

Explanations of the methodologies used to produce the estimates are provided where they deviate from the standard approach of using the corporate income tax model, which is maintained by Revenue Canada. For example, certain estimates, such as the ones related to the various withholding tax measures, were calculated using other data sources including the *Bank of Canada Review* and various Statistics Canada publications.

Tax Rate Reductions

The following items are measures that reduce the statutory tax rate faced by a corporation. They are tax expenditures because income is taxed at a rate other than the generally applicable tax rate.

Low tax rate for small businesses

Corporations that are Canadian-controlled private corporations (CCPC) are eligible for a small business tax rate reduction, known as the small business deduction. This measure provides a preferential tax rate on the first $200,000 of active business income and is available regardless of the actual size of the CCPC. In 1988 and later taxation years, the small business deduction was 16 per cent – this means that qualifying income is taxed at a 12 per cent rate instead of the general 28-per-cent rate.

Low tax rate for manufacturing and processing

A tax reduction is provided on Canadian manufacturing and processing (M&P) profits not subject to the small business deduction. This reduction takes the form of a non-refundable credit on income earned and has the effect of lowering the tax rate on M&P income. The reduction from the general 28 per cent rate is as follows:

July 1, 1988 - June 30, 1989:	2 per cent
July 1, 1989 - June 30, 1990:	3 per cent
July 1, 1990 - June 30, 1991:	4 per cent

The amounts reported in the tables estimate the additional revenues that would have been collected by the government if M&P profits were taxed at the general corporate rate.

Low tax rate for credit unions and co-operatives

A credit union, although not a private corporation for most purposes, is eligible for the small business deduction if its business income is less than $200,000. A credit union may also be eligible for an additional deduction of 16 per cent of its taxable income in excess of the income eligible for the small business deduction. The additional deduction is 16 per cent of the lesser of:

(a) the credit union's taxable income for the year, and

(b) 4/3 of the "maximum cumulative reserve" at the end of the year minus the preferred rate amount at the end of the preceding year

minus income eligible for the small business deduction in the year under the normal small business deduction rules.

The purpose of this additional deduction is to permit a credit union to pay tax at a lower rate on further income that may be needed to build up a tax paid reserve equal to 5 per cent of deposits and capital. The corporation's "maximum cumulative reserve" is equal to 5 per cent of amounts owing to members including members' deposits in the credit union, plus 5 per cent of members' share capital in the credit union. The "preferred rate amount" is essentially the amount of income remaining in the credit union in respect of which the credit union has obtained the small business deduction for taxation years commencing after 1971.

Exemption from branch tax for transportation, communication, banking, and mining iron ore corporations

The branch tax is a special tax imposed on profits derived by non-resident corporations from the carrying on of business in Canada through a branch. The rate is 25 per cent, but this is frequently reduced by reciprocal tax treaties to 15 per cent or 10 per cent. There is an exemption for corporations that are one of the following:

(a) a bank;

(b) a corporation whose principal business is:
   (i) the transportation of persons or goods;
   (ii) communications;
   (iii) mining iron ore in Canada; or

(c) an exempt corporation such as a registered charity.

No data are available to compute the revenue cost of this exemption.

Exemption from tax for international banking centres

A prescribed financial institution's branch or office carrying on business in the city of Montreal or Vancouver may qualify as an International Banking Centre (IBC) and therefore be exempt from tax on income. To qualify as an IBC under the *Income Tax Act*, the branch's income must be derived from accepting deposits and making loans to non-residents. This measure, introduced in 1987, is a tax expenditure because a financial institution can undertake business with non-residents through a Canadian permanent establishment without being subject to Canadian income taxes.

No data are available to compute the revenue cost.

Tax Credits

The following measures are credits against federal taxes payable. As such, they are tax expenditures because they provide an incentive for corporations that engage in a particular activity such as research and development or undertake an investment in a designated region of the country. The federal government forgoes revenue because tax credits may be used to offset federal income taxes payable and because some CCPCs may be eligible for a partial refund of investment tax credits (ITCs) that were earned in the year but were not used to reduce tax in the current or previous years.

Investment tax credits

The *Income Tax Act* provides an ITC for investment in eligible depreciable property that is used in certain regions of the country and for Scientific Research and Experimental Development (SR&ED) expenditures. An ITC provides beneficial treatment to certain taxpayers, depending on their size, the region of the country in which they operate and the nature of their investment. For taxation years 1989 and 1990, separate estimates are provided for the regional and SR&ED investment tax credits.

Corporations may reduce federal taxes payable by the amount of ITCs available on certain eligible expenditures. The amount of the credit is calculated as a percentage of the cost of eligible expenditures. Credits claimed reduce the undepreciated capital cost of the asset for capital cost allowance (CCA) purposes.

Refundability of ITCs

ITCs that cannot create immediate tax reductions in the current or carry back years because tax was not payable can be used in part by qualifying CCPCs to obtain current year cash refunds of 40 per cent or 100 per cent, depending on the type of eligible expenditure. A qualifying corporation for purposes of the refund is a CCPC which, together with any associated corporations, has a taxable income not exceeding $200,000 in the preceding year.

The refundability rate for small corporations of ITCs that cannot be used in the year it is earned is 40 per cent. A qualifying CCPC may earn a 100-per-cent refund on its share of ITCs earned at the 35-per-cent rate in respect of up to $2 million of current SR&ED expenditures. All refunds reduce the amount of ITC for carry-over purposes.

Changes to the ITC Rules in 1988

In addition to rate changes, several other changes to the ITC rules were enacted in 1988. For taxation years after 1988, only three-quarters of a taxpayer's federal tax payable in a taxation year could be offset by ITCs. For CCPCs, a special rule permits a full offset of federal tax on their business income eligible for the small business deduction. The carry-forward period for unused credits was extended from seven to ten years. The carry-back period remained at three years. For 1988 and subsequent taxation years, the capital cost for CCA purposes is reduced in the year following the year in which the credit is claimed, rather than in the same year. Property acquired after January 1, 1990 and not immediately put into use may not become eligible for ITCs until it is put into use or has been held by the taxpayer for two years.

Issues in calculating the tax expenditure value of ITCs

To maintain consistency with the other tax expenditure calculations in this document, the amounts reported in the table estimate the forgone revenue for the year in question from each ITC. In other words, the estimates show how much additional revenue would have been collected by the government in the year if the ITC had been eliminated in that particular year. To do this, the ITC claim for the corporation had to be decomposed into two components: ITCs that were both earned and claimed in the current year, and ITCs that were earned in prior years but claimed in the current year. The former represents credits claimed from current year expenditures. Included in these estimates are the cost of any applicable refunds on ITCs earned. The latter item, ITCs earned in the past but not claimed until the current year, is itemized separately.

Another perspective on the revenue cost of each ITC is obtained by looking at the amount of ITCs that was earned in 1989 and 1990. This information is provided in the table below. However, it should be recognized that ITCs earned in the year are not necessarily claimed in the year – they may be claimed in a subsequent year, subject to the carry-forward rules. As a result, government revenues for the year would not have been higher by the amounts shown in the table below had the ITCs been eliminated. It often takes a number of years for ITCs earned in a year to be used by the taxpayer to reduce federal taxes.

INVESTMENT TAX CREDITS EARNED IN THE YEAR

	1989	1990
	(millions of dollars)	
SR&ED ITC*	781	917
Atlantic Canada ITC	153	119
Special ITC	180	43
Cape Breton ITC	6	3
Exploration Tax Credit	30	19

* Of this amount, about $3 million may be attributed to the regional component (i.e., the additional 10 percentage points for SR&ED ITCs which are available for expenditures in Atlantic Canada).

Scientific research and experimental development investment tax credit

There are special ITC provisions applicable to SR&ED expenditures. The basic SR&ED ITC rate is 20 per cent and is 30 per cent in the Atlantic Provinces and the Gaspé. The rate is 35-per-cent for CCPCs which, together with any corporation associated with them, have prior year taxable income not exceeding $200,000. The maximum base for the 35-per-cent credit is $2 million of current or capital expenditures.

Atlantic Canada investment tax credit

The ITC rate for qualified property that is not a scientific research expenditure is 15 per cent in the Atlantic provinces and the Gaspé.

Special investment tax credit

The ITC rate is 30 per cent in selected prescribed regions – eligible areas are primarily the northern regions of each province.

Cape Breton investment tax credit

The Cape Breton credit is 45 per cent after 1988 and is applicable to prescribed equipment acquired after May 23, 1985 and before 1993.

Exploration tax credit

A 25-per-cent ITC is available for qualified Canadian exploration expenditures – these expenditures are incurred in respect of a well costing in excess of $5 million.

ITCs claimed in current year but earned in prior years

These are tax credits that were earned by corporations in previous years but were not claimed until the current year. There is a revenue cost to the government when the credits are used by corporations to reduce federal taxes payable. While the aggregate amount of these credits is known, there is not enough information available to determine what type of activity was responsible for generating the credit.

Logging tax credit

The logging tax credit is a deduction against federal taxes payable equal to the lesser of 2/3 of any logging tax paid to a province and 6 2/3 per cent of income from logging operations in that province. This measure may be considered selective because it is a special deduction against federal taxes payable for a tax paid by a particular industry to the provinces.

Political contributions tax credit

The *Income Tax Act* allows taxpayers a political contributions tax credit calculated as a percentage of actual contributions made in the year. The credit rate is 75 per cent of the first $100 contributed, 50 per cent of the next $450 contributed; and 33 1/3 per cent of the next $600 contributed. The maximum credit is $500 and would be available when the taxpayer has contributed $1,150. The credit is non-refundable and is lost if Part I tax is insufficient to apply the credit against. Contributions allowed are those made in the year to a "registered party" or to an "officially nominated" candidate in a federal election or by-election.

This measure constitutes a tax preference because political contributions are not incurred to earn income.

Exemptions and Deductions

The following exemptions and deductions are tax expenditures because they deviate from the benchmark tax system.

Partial inclusion of capital gains

Net realized capital gains accrued since 1972 were included in income at a rate of two-thirds in 1989 and three-quarters in 1990. There is a tax preference because a portion of capital gains is not included in income. The amount reported in the tables is likely an overestimate of the true amount of the cost of this tax expenditure. To the extent that the capital gains are from shares where there has been an increase in their value due to retained earnings, which have already been taxed at the corporate level, the partial inclusion of the capital gains provides some relief from double taxation.

Resource allowance

Resource allowance in lieu of deductibility of provincial royalties

The tax system provides a resource allowance equal to 25 per cent of a taxpayer's annual resource profits (after operating costs and capital cost allowances, but before the deduction of exploration expenses, development expenses, earned depletion and interest expenses). The resource allowance is provided in lieu of the deductibility of Crown royalties, mining taxes and other charges related to oil and gas or mining production. The value of the tax expenditure is estimated by comparing the resource allowance to the actual Crown charges. In the benchmark tax system, the Crown royalties would have been fully deductible and a resource allowance would not be provided.

Deductibility of provincial royalties for the Syncrude project

Taxpaying participants in the Syncrude project are permitted to deduct both the resource allowance and provincial royalties (in this case, "joint venture" payments made to the province of Alberta in lieu of a royalty) in computing income subject to tax. This is accomplished through a remission order. Under the benchmark tax system, these taxpayers would be permitted to deduct only provincial royalties. The revenue impact to the government is the value of the resource allowance deduction.

Deductibility of royalties paid to Indian bands

Royalties and lease rentals paid to Indian bands in respect of oil and gas leases on Indian reservations are considered to be Crown charges paid to Her Majesty in Right of Canada or of a Province in trust to the Indian band. Unlike non-deductible Crown charges, amounts paid to the benefit of an Indian band are generally deductible for federal income tax purposes. In addition to the deductible Crown charges, a resource allowance is earned on the resource profits net of the deductible Crown charges.

In the benchmark tax system, the Crown charges would be deductible, but no resource allowance would be earned. Therefore, the tax expenditure is the value to the taxpayer of the resource allowance deduction. Data are not available to estimate this tax expenditure.

Earned depletion

Earned depletion was an additional deduction of certain exploration and development expenditures and other resource investments from taxable income. Taxpayers were entitled to deduct 16 2/3 per cent of either certain exploration expenses or the costs of assets related to a new mine or major expansion. These deductions were limited to 25 per cent of the taxpayer's annual resource profits. As in the case of Canadian exploration expenses (CEE) or Canadian development expenses (CDE), earned depletion could be pooled, i.e., placed in a special account, and any remaining balance deducted in a future taxation year with no time limit on carrying forward these amounts.

Earned depletion and mining exploration depletion were eliminated on January 1, 1990. No additions to the earned depletion pool were permitted after December 31, 1989, but deductions can still be made on the basis of existing depletion pools.

Under the benchmark tax system, a deduction for earned depletion would not be available.

Deductibility of itemized charitable donations

A deduction of charitable donations made by corporations in computing income is permitted under the current income tax system. These donations are deductible to the extent of 20 per cent of net income and unused deductions may be carried forward for five years.

These deductions would not be permitted under the benchmark tax system because these expenditures were not incurred to earn income.

Gifts to the Crown

A corporation may deduct the full amount of any gift it makes to Canada or a province. Unlike charitable donations, the amount deductible is not limited to 20 per cent of income. However, the deduction may not exceed the amount of income. Amounts not deducted can be carried forward for up to five years.

This deduction is a tax expenditure because the deduction was not incurred in order to earn income.

Non-deductibility of advertising expenses in foreign media

Expenses for advertising in non-Canadian newspapers or periodicals cannot generally be deducted for income tax purposes. Where the advertisement is directed primarily to a market in Canada, the expense of placing it is only deductible if it is placed in a "Canadian issue of a Canadian newspaper or periodical" dated after 1975. The Free Trade Agreement included in "Canadian issue of a Canadian newspaper or periodical" newspapers or periodicals typeset or printed wholly or partly in the United States and Canada. The cost of advertising in foreign periodicals or TV stations is not restricted if the advertising is to promote sales in foreign markets.

This treatment results in a negative tax expenditure since the deduction of an expense incurred to earn income is denied. Under the benchmark tax system, advertising expenses in foreign media that were incurred to gain or produce income from a business or property would be deductible whether targeted at foreign or domestic markets.

Data are not available to assess the revenue impact of this measure.

Non-taxation of provincial assistance for venture investments in small business

Government assistance received by a corporation is normally either included in the corporation's income or subtracted in computing the cost basis of the assets to which the assistance relates for capital cost allowance (CCA) purposes. There are a number of exceptions to this rule, including provincial assistance provided for venture capital investment under specified provincial programs. Under the benchmark tax system, this type of assistance would be included in the corporation's income or the cost basis of the assets would be reduced.

No estimates are available for this tax expenditure.

Deferrals

The tax expenditures in this section provide for a deferral of income taxes from the current year to a later taxation year. In the tables, they have been valued on a cash-flow basis, i.e., the forgone tax revenue associated with the additional net deferral in the year. The alternative way of valuing deferrals would be to calculate the value of the interest-free loan that is provided to the taxpayer when taxes are deferred to a later year.

The Canadian exploration expense (CEE), Canadian development expense (CDE), Canadian oil and gas property expense (COGPE), Canadian exploration and development expense (CEDE), and foreign exploration and development expense (FEDE) provide accelerated write-offs of a taxpayer's exploration and development expenditures as compared to the corresponding deductions appearing in corporate books. This section describes the accounting rules corresponding to CEE and CDE and makes an assessment about how the effective book write-off rate compares to the tax write-off rate. A separate discussion of CEDE and FEDE is not included because the amounts are relatively small. In the case of COGPE, the existing maximum deduction rate does not permit a deduction that exceeds the depreciation of the oil and gas property.

The estimate of the total value of the above tax measures must be interpreted carefully. The ability of mining corporations and some junior oil and gas corporations to flow out CEE, CDE and COGPE by establishing limited partnerships or by issuing flow-through shares affects the allocation of the tax measure between personal and corporate income taxes and among industry sectors.

Fast write-off for Canadian development expenses

All Canadian oil and gas development expenditures are classified as CDE and written off at a 30-per-cent declining balance rate. Development costs of mining companies are CEE for a new mine or an expansion of a mine and CDE for mines that have commenced commercial production. The costs of acquiring mining properties are generally treated as CDE. Unused expenditures are accumulated in a separate account known as the cumulative

Canadian development expense (CCDE) account or pool. Any undeducted balances in the cumulative CCDE expense account need not be used within a certain period of time; they carry forward indefinitely.

Generally accepted accounting principles allow companies to depreciate exploration and development expenditures on either a "full cost" or a "successful efforts" basis. The full cost method means that all costs, productive and unproductive, are capitalized and amortized as the reserves are produced and sold. The successful efforts method means that only those costs which result in the discovery of reserves and which have a future benefit in terms of future revenues are capitalized; other costs are expensed as incurred. Most Canadian-controlled companies use the full cost method, while those in Canada that are foreign-controlled usually use the successful efforts method.

The 30-per-cent declining balance rate for CDE is most likely in excess of the effective write-off rate associated with the full-cost accounting method, whereby development expenditures are capitalized and amortized as oil and gas reserves are produced and sold. Whether or not the 30-per-cent rate is, in fact, accelerated depends on the life of the reserve being developed and on the rate of production of the reserve. For example, the 30-per-cent rate is accelerated in the case of most wells that generally have at least a 10-year life span. The 30-per-cent rate is also likely in excess of the effective write-off rate associated with the successful efforts accounting method because most development costs result in future benefits and are, therefore, amortized as the oil or gas reserves are produced and sold. Therefore, it is likely that the CDE provision gives rise to a deferral of tax.

Fast write-off for Canadian exploration expenses

Expenditures incurred in prospecting, exploring for or searching for minerals, oil or gas, or incurred to develop mineral resources in Canada are deducted for tax purposes at a rate of up to 100 per cent. These expenditures are recorded by the taxpayer in a separate account known as the cumulative Canadian exploration expense (CCEE) account and any remaining balance may be deducted in a future taxation year. There is no time limit on carrying forward these expenses.

For the taxation years under consideration, a corporation in the resource sector, known as a principal business corporation (PBC), must deduct any balance in its CCEE account to the extent of its income for that taxation year and may not use this deduction to create a non-capital loss. This deduction is optional for a non-PBC or individual, and may be used by these taxpayers to create a non-capital loss.

The accounting treatment of exploration expenditures was described under the section on Canadian development expenses.

The 100-per-cent write-off for tax purposes is clearly quicker than the rate permitted by accounting rules which require the amortization of some of the expenditures. The fast write-off for CEE therefore provides a deferral of tax.

Fast write-off for capital equipment used for SR&ED

Capital expenditures for SR&ED may be written off immediately in the year incurred. Under the benchmark tax system, expenditures that are capital in nature and designed to produce income in the future are depreciated over the period in which the income is expected.

Allowable business investment loss

Capital losses arising from the disposition of shares and debts are generally deductible only against capital gains and this is the approach adopted in the benchmark system. However, under the allowed business investment loss rules, a portion (two-thirds in 1989 and three-quarters in 1990) of capital losses in respect of shares or debts of a small business corporation may be used to offset other income.

Unused allowable business investment losses may be carried back three years and forward seven years. After seven years, the loss reverts to a capital loss and may be carried forward indefinitely.

Deductibility of carrying charges on land

Before tax reform in 1988, interest costs and property taxes associated with the holding of undeveloped land were deductible expenses to the extent of revenue from the land, unless the land was used in the course of a business or for the purpose of producing income. This general rule did not apply, however, to property developers – i.e., land for resale or development. Tax reform removed this exemption and introduced rules where these charges must be capitalized. The new rules were phased-in over a five-year period starting in 1988 and ending in 1992. The proportion of costs subject to the new rules increased by 20 per cent per annum. Consequently, 60 per cent of these costs were fully deductible in 1989 and 40 per cent were fully deductible in 1990. In addition to this transition, a deduction up to an amount equal to $1 million times the prescribed interest rate for the year is permitted for small developers. This deduction must be shared by related companies. Under the benchmark tax system, these expenses would generally be treated as being related to the property (and part of its cost). Consequently, these expenses would not effectively be deductible until the property is sold.

Data on raw land reported on financial statements was used to estimate the tax expenditure. However, no data are available to estimate the small developers' deduction.

Available for use

Before 1990, taxpayers were allowed to claim CCA and ITCs in respect of property not yet producing income (i.e., property not in use). In many cases, this resulted in a significant mismatch of revenues and expenses, which gave rise to a tax deferral. This represents a tax expenditure because taxpayers were allowed to claim deductions and tax credits on property before it was put in use.

As of 1990, taxpayers may claim CCA and ITCs on eligible property at the earlier of the time it is put in use or in the second taxation year following the year of acquisition. Consequently, for the 1990 and 1991 taxation years, the value of the tax expenditure associated with this measure is nil because the taxpayer would not be permitted to claim CCA and ITCs on property that was acquired but not yet available for use. Property that becomes eligible for CCA and ITCs by virtue of the two-year deferral rule could give rise to a tax deferral (and a tax expenditure) in 1992, if the property was acquired in 1990.

Capital gains taxation on realization basis

Capital gains are taxed upon the disposition of property and not on an accrual basis. This treatment results in a tax deferral. Under the benchmark tax system, capital gains would be fully included in income as they accrue.

No data are available for the tax expenditure that arises from this measure.

Expensing of advertising costs

Advertising expenses are deductible on a current basis even though some of these expenditures provide a benefit in the future. This treatment results in a deferral of tax. Under the benchmark tax system, the expenses would be amortized over the duration of the benefits. While the benefits of advertising may extend beyond the current year, determining useful lives in most cases is not feasible.

Data are not available to estimate the cost of this tax expenditure.

Cash basis accounting

Farming and fishing corporations may elect to include revenues as received and deduct expenses when paid regardless of when the income arises to which these costs relate. This treatment allows a deferral of income and a current deduction for pre-paid expenses. Under the benchmark tax structure, income is taxable when it accrues.

No data are available for farming and fishing corporations affected by cash basis accounting.

Flexibility in inventory accounting

Under cash basis accounting, which is available for farming and fishing, the cost of net additions to inventory is deductible on a current basis. This treatment could put these corporations in a loss position with the usual carry-forward limits applying.

At the farmer's (but not fisherman's) discretion, however, an amount not exceeding the fair market value of inventory can be added to income at year-end and deducted from income in the following year. The cost of building up inventory is thus offset by an adjustment for additions to inventory. This provision allows farming corporations to avoid the disadvantage of cash basis accounting as they build up inventory. It provides a benefit to those taxpayers with no taxable income to absorb the cost of additions to inventory.

No data are available for this tax expenditure.

Deferral of income

On grain sales

Farmers may make deliveries of grain before the year-end and be paid with a ticket that may be cashed in only in the following year. The payment for deliveries of grain is included in income only when the ticket is cashed, providing a deferral of taxes. Under the benchmark tax system, income would be taxed on an accrual basis.

No data are available on the use of cash tickets by farm corporations to calculate the value of this tax expenditure.

On destruction of livestock

On the election of the taxpayer, when there has been statutory forced destruction of livestock, the income received for the forced destruction can be deemed to be income in the following year. The deferral is also available when the herd has been reduced by at least 15 per cent in a drought year. This provision allows for a deferral of income to the year where the livestock is rebuilt. Under the benchmark tax system, income is taxable when it accrues.

No data are available to estimate the tax expenditure for corporate farmers from this measure.

Holdback on progress payments to contractors

In the construction industry, contractors are typically given progress payments as construction proceeds. However, a portion of these progress payments (e.g., 10 to 15 per cent) is often held back until the entire project is satisfactorily completed. The amounts held back need not be brought into the income of the contractor until the construction to which it applies is certified as complete. On the other hand, the contractor can often fully write-off expenses under the construction contract as they are incurred. As a result, the contractor has an optional faster write-off of expenses than would be allowed under the strict accrual accounting of the benchmark tax structure. Where a contractor, in turn, withholds an amount from a subcontractor, the costs equal to the amount of the holdback are not considered to have been incurred by the contractor and are not deductible in computing taxable income until paid. The net impact of these two measures on a given contractor's tax liability depends on the ratio of holdbacks payable to holdbacks receivable. If holdbacks receivable are greater than holdbacks payable by the contractor for a given job, there is a deferral of tax – the contractor has an optional write-off of expenses that is faster than would be allowed under the benchmark tax system. If holdbacks payable exceed holdbacks receivable by the contractor for the given job, there is a prepayment of taxes.

No data are available on holdbacks payable and receivable for incorporated contractors to estimate the value of this tax expenditure.

Deferral of tax from use of billed-basis accounting by professionals

Under accrual accounting, costs must be matched with their associated revenues. In computing their income for tax purposes, however, professionals are allowed to elect either an accrual or a billed-basis accounting method. Under the latter method, the costs of work in progress can be written off as incurred even though the associated revenues are not brought into income until the bill is paid or becomes receivable. This treatment gives rise to a deferral of tax.

Data are not available to determine the revenue cost of this tax expenditure.

International

Exemptions from non-resident withholding tax

A withholding tax is applied to certain amounts, enumerated in the *Income Tax Act*, that a person resident in Canada pays or credits to a non-resident person. The statutory rate is 25 per cent, but in most cases this is reduced by bilateral treaty to 10 or 15 per cent.

The following items are subject to the non-resident withholding tax: interest, certain dividends, management fees, certain rents, royalties and similar payments, estate or trust income, alimony and support payments, film rights, certain pension benefits, and RRSP and RRIF payments.

The non-resident withholding tax is required to be withheld and remitted by the resident of Canada who pays or credits the amounts to non-residents. A number of exemptions are currently provided in the *Income Tax Act*, specifically, for interest on foreign currency deposits and long-term corporate securities, and payments for the use in Canada of motion picture films or video tape.

Information for the above estimates was obtained from Statistics Canada data on international financial flows.

For interest on foreign currency deposits

Interest paid to non-residents on foreign currency deposits with Canadian Schedule I banks is exempt from withholding tax. This exemption results in a tax expenditure relative to the benchmark system where interest on these deposits would be subject to withholding tax.

This tax expenditure would ideally be measured by applying the appropriate withholding tax rate to the amount of interest income paid to residents of each foreign country. Since this information is not available, total interest paid in respect of foreign currency deposits by Canadian schedule I banks was allocated according to the residency of the depositor and the amount of the deposit. Interest income data were obtained from the Bank of Canada, while data on the residency of depositors were from the banks' annual statements to the Office of the Superintendent of Financial Institutions.

For interest on long term corporate securities

There is an exemption from the non-resident withholding tax for interest payable by a resident corporation to an arm's length person on an obligation if the corporation is not obliged to pay more than 25 per cent of the principal amount within five years from the date of issue.

Disaggregated data on withholding taxes collected in respect of interest on long-term corporate securities are not available. The estimates reported in the table are derived from the total interest payments made to non-residents, non-resident holdings of corporate bonds as a percentage of total non-resident holdings and the percentage of bonds that have maturities greater than five years compared to all bonds. Data are taken from various Statistics Canada publications.

The amounts reported estimate the additional revenues that would be generated if these payments were taxed at the appropriate treaty rate.

For the use in Canada of motion picture films and for film and video tape used in television

There is an exemption for amounts paid or credited to a non-resident for a right in or for the use of a motion picture film or a film or a video tape or other means of reproduction for use in connection with television. These payments must be in respect of a film, etc., that has been or is to be used or reproduced in Canada. The exemption does not apply to a film, etc., for use solely in connection with a television news program.

The amounts reported estimate potential revenue from payments to non-residents in respect of non-television film and broadcast rights. They are estimated from total royalty payments in respect of film and broadcast rights. Data to calculate the value of the tax expenditure are from Statistics Canada.

Non-taxation of life insurance companies' world income

All Canadian corporations, with the exception of resident multinational life insurance companies, are taxed on their worldwide income. Resident multinational life insurers are taxed on their profits from carrying on a life insurance business in Canada using special rules for allocating various items of taxable income, including gross investment revenues.

Estimates of the tax expenditure associated with taxing life insurance companies on a Canadian only basis were made from tax return data and information available from the Office of the Superintendent of Financial Institutions.

Tax exemption on income of foreign affiliates of Canadian corporations

The Canadian system for taxing the income of foreign affiliates of Canadian shareholders or the dividend income of the Canadian shareholders derived from foreign affiliates is based on the objective of encouraging international competitiveness, protecting the tax base and eliminating double taxation.

Where the foreign affiliate earns active business income, Canada defers any recognition of that income until which time it is paid to the Canadian shareholders as a dividend on shares of the affiliate. In cases where the business income has been earned in a country with which Canada has entered into an international double taxation treaty, the dividend paid out of that income to Canadian corporate shareholders is not subject to additional Canadian tax in order to promote international competitiveness. Where the business income is earned in other countries, the dividend is taxed in Canada with a tax deduction given to Canadian corporate shareholders based on the underlying foreign tax paid.

Where the foreign affiliate earns passive income and the affiliate is a controlled foreign affiliate of a person resident in Canada, the passive income is taxed in the Canadian shareholder's hands on an accrual basis. Credit is given for foreign taxes paid in the form of a deduction and when the income is paid to the shareholder in the form of a dividend, a deduction is provided to the extent of the income previously taxed.

Questions arise as to what should be the appropriate benchmark system to measure the extent of the tax expenditure, if any, in this case. Basically, three different benchmarks could be contemplated:

(a) ***Canada should tax only Canadian-source income***. This is the territorial approach. Under this approach, foreign subsidiaries of Canadian companies would face the same tax burden on a foreign-sourced business income as locally-owned enterprises in the foreign jurisdiction. This approach is consistent with the concept of capital-import neutrality. Capital import neutrality results when the shareholders of subsidiaries do not face additional taxes in Canada with respect to the foreign business income earned by their subsidiaries. This is the approach that Canada has adopted with respect to dividends arising from affiliates in countriès with which Canada has entered into a double taxation agreement. If this exempt dividend approach were to be considered as the benchmark, then no preference would be associated with the foreign dividend exemption.

(b) ***Foreign direct dividends should be taxable in Canada and double taxation alleviated with a foreign tax credit.*** This is the approach used by a number of countries and allows for additional taxes to be collected in the country of residence of the shareholder of a foreign affiliate at the time when a dividend is paid to the shareholder by the affiliate out of foreign business income. Additional tax would be levied when domestic tax payable exceeds the amount of foreign taxes paid both on the dividend itself and the underlying foreign corporate business profits out of which the dividend was paid. In Canada, dividends from foreign affiliates that do not qualify as exempt dividends are taxed on this basis. If this were to be considered the benchmark system, then the exempt dividend system would provide a preference, measured as the additional tax, net of the foreign tax credit, that would have been payable had the dividend been taxable in Canada.

(c) ***Income earned by foreign affiliates should be taxable in Canada as it accrues to the Canadian shareholder, i.e., on a current basis.*** This system is consistent with the concept of capital-export neutrality, which states that income of foreign affiliates should be subject to the same tax in the hands of its shareholders on a current basis regardless of whether the income is earned domestically or in a foreign affiliate. Certain passive income earned by controlled foreign affiliates is taxable on this basis in Canada. If this system were to be viewed as the benchmark, the foreign tax credit approach would be said to provide a preference measured as the deferral of incremental Canadian tax from the time the income is earned until the time the dividend is paid out.

Each of these three possible benchmarks has a policy justification. Data required to compute the amount of tax preference associated with any of the benchmarks are currently unavailable.

Exemption of foreign shipping and aircraft companies from Canadian income tax

Non-resident shipping corporations primarily engaged in international traffic are treated as non-resident under the *Income Tax Act* and are therefore exempt from Canadian income tax. Non-resident incorporated airlines primarily engaged in international traffic are treated as non-resident by international agreement and are therefore taxed only in their home countries.

No data are available.

Other Tax Expenditures

The following tax measures are not directly related to the corporate business sector in Canada.

Transfer of income tax room to provinces in respect of shared programs

In 1967, federal-provincial fiscal arrangements were altered. The federal government substituted a transfer of corporate income tax points for direct transfers to provinces under the cost-shared program for post-secondary education. The tax change involved an increase in the corporate income tax abatement rate from 9 to 10 percentage points, effectively reducing the current federal corporate income tax rate from 37 per cent to 36 per cent (the rate before the abatements was 46 per cent). This transfer of tax room has been included because it is a substitute for direct spending programs.

Exemption from non-resident withholding tax for interest on federal, provincial and municipal direct and guaranteed debt

Interest income on bonds, debentures, notes, mortgages or similar obligations guaranteed by federal, provincial and municipal governments or related institutions (e.g. schools, hospitals) is exempt from withholding tax.

Disaggregated data on withholding taxes collected in respect of interest on government securities are not available. The estimates reported in the table are derived from total interest payments made to non-residents and non-resident holdings of government bonds, money market paper and other liabilities as a percentage of total non-resident holdings. Data are from Statistics Canada publications.

The amounts reported estimate the gross additional withholding tax revenues that would be generated if the payments were taxed at the appropriate treaty rate.

Non-taxation of registered charities

Taxable income of registered charities, mainly investment income, is exempt from tax. There is a tax preference to the extent that commercial activities (investment, selling of goods and services) are unrelated to the charitable goals of the organization. Fairness may also be an issue when taxable corporations compete with charities for commercial activities. The taxation of investment income and/or unrelated business income would require segregation of revenues and expenses with the possibilities of tax planning. The non-taxation of registered charities results in a tax preference for a specific group of taxpayers/legal entities, such as:

- non-profit scientific research corporations; and
- non-profit corporations providing low-cost housing for the aged.

Data on net taxable income from unrelated investment or commercial activities of registered charities are not available.

Income tax exemption for provincial and municipal corporations

Under the current income tax system, provincial Crown corporations and municipal corporations are exempt from income tax. Under the benchmark tax structure, such corporations would be taxable to the extent that they had taxable income.

Data are not available to compute this tax expenditure.

Non-taxation of certain federal Crown corporations

A few exempt federal Crown corporations carrying on commercial activities may have income otherwise subject to tax. In practice, the general policy is that federal Crown corporations that carry out significant business activities should be taxable.

Data are not available to compute this tax expenditure.

Memorandum Items

The measures in this section are classified as memorandum items. Memorandum items are:

1. measures that are considered to be part of the benchmark tax system; or
2. measures where the data do not permit the tax expenditure component to be separated from the amount that is part of the benchmark tax system; or
3. measures where there is some debate on whether it should be considered to be a tax expenditure or part of the benchmark tax system.

Excess of tax depreciation over book depreciation

Issues in calculating the cash-flow impact of the excess of tax depreciation over book depreciation

Under the benchmark tax system, corporations would be permitted a deduction for the use of capital equipment equal to the economic depreciation rate. Since economic depreciation rates are difficult to estimate for many categories of assets, a practical alternative is to use the book depreciation rates of the firms. These rates are accessible and follow accounting norms that generally make them similar to economic depreciation rates. That is, they represent the taxpayers' own estimates of the useful lives of their assets.

In keeping with the cash-flow concept for valuing tax measures in this study, the tax value of CCA provisions has been estimated in reference to the depreciation claimed for book purposes as recorded in taxpayers' financial statements. That is, the value of CCA measures is equal to the difference between CCA claims and book depreciation multiplied by the corporation's marginal tax rate. The figures reported in the tables show the change in federal tax revenues that would result if corporations claimed book depreciation instead of CCA, in computing income for tax purposes. As discussed below, when CCA differs from book depreciation, some but not necessarily all of this amount may represent a tax expenditure. There may be other reasons why there is a difference between book depreciation and CCA that are unrelated to the existence of a tax preference, which is why this measure is classified as a memorandum item. The available data do not permit a separation of the tax expenditure component associated with this provision from the portion that is essentially part of the benchmark system.

Differences between CCA and book depreciation

The Canadian tax system provides for the deduction of CCA, which may differ in several fundamental ways from book depreciation. First, the CCA rates at which assets can be written off against income may be faster than the rates used in companies' financial accounts. As a result of tax reform in 1988, however, the number of asset classes that have accelerated depreciation rates was reduced significantly. Where fast write-offs are still available, the CCA system allows a larger deduction from income for the first few years after the property is acquired. During these initial years, this treatment results in a lower taxable income and a lower tax liability than if book depreciation had been claimed. For later taxation years, however, all or virtually all of the CCA may have been claimed and the book depreciation would be greater than that allowed for tax purposes. Thus, income for tax purposes in these later years would be higher than if book depreciation had been used. On balance, there has been a deferral of taxes. In the case of growing firms with many assets, the larger CCA claims on the newer assets would always be sufficient to offset the smaller CCA claims on older assets, so that taxable income would be continually lower than it otherwise would be. In this case, the tax deferral becomes indefinite and would be equivalent to a tax reduction.

Second, the CCA rate may be less than the book depreciation rate. An example of this situation could be rapidly depreciating equipment if the CCA rate has not kept pace with changes in technology, which quickly render some equipment obsolete. If this situation arises, there would be a negative tax expenditure – in effect, the tax system provides a disincentive to acquire this property. During the initial years, CCA would be less than book depreciation and there would be a prepayment of taxes. During the later years, CCA would exceed book depreciation and there would be a tax savings. The net effect, however, would be an interest-free loan from the taxpayer to the government.

As a result of the static nature of the calculation used in this study, the amount of the tax preference arising from accelerated or deficient CCA rates cannot be identified. The calculation is made at a particular point in time (the 1989 or 1990 taxation year) and not over the entire life of the asset. For example, consider the case of an asset where an accelerated CCA rate is provided. Clearly, a tax preference is available since there is a deferral of tax over the lifetime of the asset. If we look at the difference between CCA and book depreciation during one of the initial years of the asset's life, we would conclude that there is a positive tax expenditure associated with this asset, which is the correct conclusion. On the other hand, if we were to perform the same calculation at a later year (i.e., when book depreciation exceeds CCA) we would conclude that there is a negative tax expenditure, which would be incorrect.

The third difference between CCA claimed and book depreciation is that taxpayers have discretion in choosing the amount of CCA, subject to a maximum amount. If taxpayers do not have sufficient taxable income, they need not claim the CCA available to them in that year; they can wait for a future year. By doing so, taxpayers can avoid creating a tax loss, which is subject to a limited carry-over period during which it can be deducted (i.e., three years back, seven years forward). On the other hand, there is no time limit on using CCA. Observing tax depreciation that exceeds book depreciation does not necessarily imply that a tax preference has been provided. For example, consider an asset where the CCA and book depreciation rates are identical. If a taxpayer does not deduct CCA in one year and then makes the deduction in subsequent years, the amounts claimed for tax and book depreciation purposes would be different in these years even though there is no tax preference associated with this asset. Viewed in this light, the discretionary nature of the CCA deduction may be seen as another mechanism to carry over losses to future years. If differences arise between tax and book depreciation for loss carry-over reasons, the forgone revenue should not be considered to be a tax expenditure.

The fourth difference between CCA claimed and normal accounting depreciation arises from the pooling of assets into CCA classes. (There are some exceptions such as rental buildings costing at least $50,000, which are placed in a separate prescribed class.) Accounting depreciation is determined by reference to each individual asset. If an asset that originally cost $100 has depreciated so that its current book value is $50, and is sold for $70, the $20 difference would, in principle, be brought into income. However, under the CCA system, this asset would typically be grouped with other assets in a CCA class and the proceeds of a sale simply serve to reduce the total undepreciated capital cost of the class. Generally, the effect of this is that the $20 of unrealized recapture on the disposal of property is gradually brought into income as future CCA claims for the class are reduced accordingly. Thus, the recapture of any "excess" depreciation claim may be deferred well beyond the time of disposition of an asset. Similarly, there may be a corresponding deferral in the recognition of terminal losses when the asset is sold for less than its depreciated value.

Finally, tax depreciation and book depreciation differ in their treatment of interest payments related to the acquisition of a capital asset. For accounting purposes, interest payments may be capitalized in the cost of the asset; for tax purposes, interest payments are generally expensed in the year they are incurred.

Specific provisions

The CCA rate exceeds book depreciation in some cases. The more generous provisions for certain types of property are described below. Except for capital equipment used in scientific research and experimental development, specific valuations of these special provisions could not be made under the cash-flow method as book depreciation cannot be attributed to the various CCA classes.

Manufacturing and processing assets (class 29, 39, 40)

Specified property used primarily in manufacturing and processing was depreciated over three years at a 25-per-cent, 50-per-cent, 25-per-cent straight-line rate in class 29, if acquired after November 12, 1981 and before 1988.

After 1987, most M&P machinery and equipment assets went into class 39, which has a depreciation rate that diminished in stages to a 25-per-cent rate calculated on a declining balance basis with a half-year rule. In 1989, the rate was 35 per cent, which declined to 30 per cent in 1990. Property which would otherwise have been in class 10 was assigned to class 40 instead of class 39, where the CCA rate diminished to 30 per cent instead of 25 per cent.

Vessels (class 7)

Vessels are generally included in class 7 and are subject to a maximum CCA rate of 15 per cent. Accelerated CCA on a straight line basis at a maximum rate of 33 1/3 per cent of the capital cost of the property is available in respect of a vessel including furniture, fittings, radio communication equipment and other equipment if it was (a) constructed in Canada, (b) registered in Canada, and (c) not used for any purpose whatever before acquisition by the owner. For vessels acquired before July 14, 1990, this accelerated capital cost allowance was available only if the Minister of Industry, Trade and Commerce (now the Minister of Industry and Science) certified that all the above conditions had been met. This certification requirement was withdrawn for acquisitions after July 13, 1990.

Offshore drilling vessels (class 7)

Certain offshore drilling vessels qualify for an additional 15-per-cent CCA for an effective rate of 30 per cent, subject to the half-year rule. An offshore drilling vessel acquired after December 31, 1987 becomes a class 41 rather than a class 7 asset and is depreciated at 25 per cent.

Power-operated movable equipment (class 22, 38)

Such equipment designed for the purpose of excavating, moving, placing or compacting earth, rock, concrete or asphalt acquired after March 16, 1964 and before 1988 can be depreciated at a 50 per cent CCA rate, subject to the half-year rule. Equipment acquired after 1988 is depreciated under class 38, at a 35 per cent CCA rate in 1989 and 30 per cent in 1990.

Railway assets (class 35)

Railway cars acquired on or before February 2, 1990 and not for rent or lease are eligible for an additional allowance of 8 per cent. The rate is reduced to 6 per cent for cars acquired after February 2, 1990. Railway cars acquired before April 27, 1989 for rent or lease are eligible for an additional allowance of 8 per cent – diminished to 6 per cent over the 1990 to 1995 taxation years. The rate is reduced to 6 per cent for cars acquired after April 26, 1989.

Communication satellites (class 30)

Unmanned telecommunication space craft acquired before 1988 can be written off on a 40-per-cent declining balance basis subject to the half-year rule.

Retailer's point-of-sale equipment (class 12)

A 100-per-cent CCA rate is applicable for certain types of point-of-sale equipment acquired after August 8, 1989 and before January 1, 1993. In addition, the half-year rule does not apply to these purchases. The equipment must be acquired for use in a business of selling goods or providing services to consumers that is carried on in Canada or for lease to another taxpayer for use by that taxpayer in such a business.

Application software (class 12)

A 100-per-cent CCA rate, with the half-year rule, is applicable for application software or a right or license to use application software acquired after May 25, 1976.

Certified Canadian films (class 12, 10(w))

Certified productions acquired before 1988 qualify for a CCA rate of 100 per cent (class 12). Certified productions acquired after 1987 become class 10(w) property and are depreciated at a 30 per cent declining balance rate, but are not subject to the half-year rule when acquired.

Energy-efficient equipment (class 34)

Straight-line depreciation of 25 per cent, 50 per cent and 25 per cent is applicable to certain equipment used for the generation of electricity or the production or distribution of heat. The equipment has to meet certain criteria relating to more efficient use of fuels or the utilization of waste materials to be eligible and be certified by the Minister of Natural Resources. Qualifying equipment includes equipment designed to: produce heat derived primarily from the consumption of wood wastes or municipal wastes; produce electrical energy by using wind energy; or recover heat that is a by-product of an industrial process. Also included as qualifying equipment are: hydro-electric installations not exceeding 15 megawatts; certain types of co-generation equipment; and certain types of active solar heating equipment.

Water and air pollution control property (class 24, 27)

Assets which qualify as class 24 or class 27 are eligible for a straight-line allowance of 25 per cent, 50 per cent and 25 per cent over three years. This special allowance for water and air pollution control equipment is applicable only to new property that is used in operations that were started before 1974 and have been continuously carried on since that time. The eligibility of such property, once established, can flow through corporate amalgamations and wind-ups.

Mining assets (class 28, 41)

As described previously under the provisions for Canadian Exploration Expense (CEE), certain mining buildings, machinery, and equipment acquired for use at a new mine or a major expansion of an existing mine may qualify for an accelerated rate of up to 100 per cent. These expenditures must be incurred in prospecting, exploring for or searching for minerals, oil or gas, or in developing mineral resources in Canada.

For acquisitions after December 31, 1987, certain fixed assets acquired in connection with a new or expanded mine are included in class 41 at a 25 per cent depreciation rate. Such assets would previously have been included in class 28 and depreciated at a rate of 30 per cent. In addition to the 25-per-cent allowance provided in class 41, a taxpayer owning such property and operating the mine may claim an additional allowance equal to the lesser of (1) the remaining undepreciated capital cost of property of the class, or (2) his income for the year from the new or expanded mine.

The following three items are parts of the tax system that provide some integration between the personal and corporate tax systems. The values of the following items are calculated as additional corporate taxes that would be owing if corporations and individuals were treated as separate tax units.

Refundable Part I tax on investment income of private corporations

As a method of integrating the personal and corporate income taxes, a portion of the income taxes paid on investment income received by a private corporation (excluding inter-corporate dividends) is refunded to a CCPC when this income is paid out to shareholders as dividends.

Refundable capital gains for special investment corporations

Capital gains realized by an investment corporation are taxed at the corporation level and the tax is accumulated in the "refundable capital gains tax on hand" account. The corporation uses this account to get a capital gain refund when it distributes capital gain dividends to its shareholders. Since these dividends are capital gains distributions, they are taxed as capital gains in the hands of the shareholder and not as dividends.

Investment corporation deduction

Investment income is taxed at the corporation level and in the hands of the individual who receives it as dividend payments. In order to achieve a certain degree of integration between the personal and corporate tax systems, the current rules allow an investment corporation to deduct from its Part I tax otherwise payable 20 per cent of the amount by which its taxable income exceeds its taxed capital gains.

Loss carry-overs

Loss carry-overs are part of the benchmark tax system because the cyclical nature of business income suggests that such income should be viewed over a number of years. The loss carry-over rules permit corporations to apply their losses against past or future income. Where available, the revenue estimates indicate how much revenue the government forgoes by allowing current year losses to be applied against income from past years.

Non-capital loss

A non-capital loss results from the corporation carrying on a business or from property. Non-capital losses may be carried back three years and forward seven years to reduce or offset the corporation's taxable income.

Net capital loss

A net capital loss arises from the disposition of capital property. This type of loss may be carried back three years and forward indefinitely but applied only against net capital gains that are taxable.

Data are not available for the forgone revenue associated with net capital loss carry-overs.

Meals and entertainment expenses

Meals and entertainment expenses are considered to be a memorandum item because the amount that should be deductible under a benchmark tax system is debatable. While a portion of these expenditures is incurred in order to earn income, there is an element of personal consumption associated with these expenditures. Consequently, only a partial deduction for these expenses would be permitted under the benchmark tax system.

A reasonable amount paid or payable for food, beverages or entertainment incurred in earning business income is normally deductible in computing a taxpayer's income. Prior to tax reform in 1988, 100 per cent of business meals and entertainment expenses were deductible for tax purposes. However, in recognition of the fact that there is an element of personal benefit in these expenditures, tax reform reduced the amount that is deductible to 80 per cent. Therefore, in general, the deduction with respect to a reasonable amount paid or payable for food, beverages and entertainment will be limited to 80 per cent of their costs.

Where the cost of food, beverages or entertainment is part of a package price which includes amounts not subject to the 80-per-cent limitation, the taxpayer will be required to determine the value or make a reasonable estimate of the amount subject to the 80-per-cent limitation.

The amounts in the tables for this measure reflect the forgone revenue from allowing 80 per cent of these expenses to be deductible.

Large corporations tax

Threshold

The large corporations tax (LCT) was introduced on July 1, 1989 as a tax on the Canadian capital of large corporations. Amounts paid under the LCT in 1989 and 1990 could be used to reduce the Canadian portion of the 3-per-cent corporate surtax. In 1989 and 1990, the LCT was applied at a rate of 0.175 per cent on the amount by which a corporation's taxable capital employed in Canada exceeds its capital deduction for the year. The capital deduction for the year is $10 million; however, this deduction must be shared amongst related corporations. This capital deduction is not considered to be a tax expenditure because it is generally available to all corporations.

Exempt corporations

Certain corporations are exempt from paying the LCT – this includes corporations exempt from paying Part I income tax. The LCT that would otherwise have been paid by exempt corporations represents a tax expenditure but data are not available to estimate this amount.

Interest credited to life insurance policies

Life insurance companies are taxed under the Investment Income Tax (IIT) at a rate of 15 per cent on a notional amount of investment earnings attributable to life insurance policies. The IIT is intended to reduce the tax advantage that life insurance companies have in selling life insurance policies. The IIT does not fully tax the investment earnings credited to life insurance policies because of the approximate nature of the tax.

The IIT does, however, interact with the taxation of policyholders. The *Income Tax Act* divides life insurance policies into two categories: savings-oriented policies and protection-oriented policies. Savings-oriented policies are those where the amount of money invested in the policy is large relative to the death benefit. Holders of savings-oriented policies are subject to annual accrual taxation in respect of the insurer's investment earnings that are attributable to their policies. Investment earnings reported by these holders are subtracted from the IIT tax base, so as to avoid the double taxation of the earnings.

Holders of protection-oriented policies are not subject to accrual taxation directly. However, investment earnings are taxed when a protection-oriented policy is surrendered or terminated (other than by death), or when paid out as policy dividends once the cumulative dividends exceed the total premiums paid under the policy. Investment earnings that are taxable to holders of protection-oriented policies are also deductible from the IIT base.

Consequently, the bulk of the tax expenditure is related to the difference in personal tax rates and the IIT tax rate on protection-oriented policies. A portion of the expenditure is related to timing differences – i.e., policies that are eventually taxed in the hands of policyholders – and permanent differences – i.e., policies that are held until the death of the insured.

Patronage dividend deduction by credit unions and co-operatives

Patronage dividends (the excess of revenues over costs) paid out by a credit union or a co-operative to its members are deductible in computing the corporate income tax liability of credit unions and co-operatives. The taxpayer is required to withhold 15 per cent of all patronage dividends in excess of $100 paid to each customer who was resident in Canada.

The appropriate tax treatment of patronage dividends is not clear. These dividends could be viewed as the return of excess payments, which would be deductible. Alternatively, these payments could be viewed as the payment of dividends to members, which would not be deductible.

The amount shown is the revenue impact of allowing patronage dividends to be deductible from income tax.

Non-resident-owned investment corporation refund

A non-resident-owned investment corporation must pay income tax at a rate of 25 per cent. Except for capital gains realized on taxable Canadian property, this tax is refundable when the surplus is distributed as taxable dividends to the shareholders; the applicable rate of withholding tax then applies. The refund is designed to relieve the dividends paid to non-residents from double taxation that would otherwise result. The corporation is essentially treated as a conduit for the flow-through of income to the ultimate owners. The amounts reported estimate the tax revenues that would be generated if the non-resident-owned investment corporation refund was not available.

Deferral of capital gains income through various rollover provisions

The taxation of capital gains is affected by provisions that permit taxpayers to avoid realization for tax purposes through various rollover provisions. Rollovers associated with amalgamations and other corporate reorganizations have been considered part of the benchmark tax structure. Since the benchmark tax structure includes all accrued gains, this item is identified separately for information purposes. Examples include:

- the transfer of assets to a corporation or partnership in consideration for share capital or a partnership interest;
- amalgamations of taxable Canadian corporations;
- the winding-up of a subsidiary corporation into its parent corporation; and
- share-for-share exchanges.

No estimates are available for the tax expenditure that arises from these rollover provisions.

Excess deduction for intangible assets

Three-quarters of eligible capital expenditures on intangible assets is added to cumulative eligible capital. A deduction of up to 7 per cent of cumulative eligible capital at the end of the year is allowed. An example of intangible assets is goodwill purchased upon the acquisition of a business.

This treatment of intangible assets could give rise to a positive or negative tax expenditure depending upon its actual rate of depreciation compared to the amount that is permitted for tax purposes.

Data are not available to estimate the cost of this measure.

Categorization of Items by Industrial Category

To provide more information, an industrial breakdown of the major corporate tax measures has been included in the tables. The allocation of tax expenditures was redistributed across industries to reflect other information where available. The broad industry classifications are defined by the 1980 Standard Industrial Classification Code (SIC) and are indicated below:

Industry	Standard Industrial Classification Code
Agriculture, Forestry, and Fishing	0100 – 0599
Manufacturing	1000-3599, 3700 – 3999
Construction	4000 – 4499
Transportation and Storage	4500 – 4799
Communications	4800 – 4841
Public Utilities	4900 – 4999
Wholesale Trade	5000 – 5999
Retail Trade	6000 – 6999
Finance	7000 – 7699
Services	7700 – 7799, 8500 – 9999
Oil and Gas	0630 – 0799, 3600 – 3699
Mining	0600 – 0629, 0800 – 0999
All Corporations	0000 – 9999

APPENDIX C

CHANGES TO THE PERSONAL INCOME TAX SYSTEM 1983-1991

	Year
Provisions eliminated	
$100 standard deduction for charitable donations and medical expenses	1984
Income splitting through interest-free loans between family members	1985
Scientific research tax credit	1985
Deferral through $120,000 farm capital gains transfer to RRSP	1985
Capital gains treatment of stock dividends of public corporations	1985
Indexed security investment plans	1986
Non-taxation of various homeowner grants	1986
Registered home ownership savings plan:	
contribution deduction disallowed	1985
income on plans taxable	1986
3-per-cent inventory valuation adjustment	1986
Deduction of up to $2,000 of allowable capital losses against other income (phased out)	1986
Federal tax reduction	1986
Multiple-unit residential buildings	1987
$1,000 investment income deduction	1988
Deduction of resource-related expenditures:	
earned depletion (phased out)	1988
Deferral of up to $200,000 of capital gains on intergenerational transfers of small business	1988
Employment expense deduction	1988
Employment tax credit	1988
Exemption for dependants over 18 years old who are not infirm	1988
Five-year block averaging for individuals engaged in farming and fishing	1988
Forward averaging	1988
Deferral through reporting of certain investment income	1990
Federal Sales Tax Credit	1991

	Year
Provisions reduced or restricted	
Rollover of pension benefits:	
no tax-free transfer for unregistered plans	1984
Federal tax reduction: phased out for high income	1984
reduced	1985
3-per-cent inventory valuation adjustment: denied to inventories of currency	1985
$1,000 investment income deduction: capital gains no longer qualify	1985
Child tax credit: reduced income threshold at which the credit is phased out	1986
Exemption for dependants 18 years old and over other than mentally or physically infirm dependants:	
reduced income threshold	1986
reduced amounts	1987
Exemption for dependants under 18 years old:	
amount no longer indexed	1984
reduced amount	1987-1988
reduced to equal family allowance amounts	1989
Investment tax credit	1987-1988-1989
100-per-cent write-off for Canadian films	1988
Capital gains:	1988
inclusion rate increased to two-thirds	
cumulative net investment loss rules introduced	
lifetime capital gains exemption restricted to $100,000	
for non-farm, non-small business property	
Deductions converted to tax credits	
Overseas employment deduction	1984
$1,000 pension income deduction	1988
Age exemption	1988
Basic personal exemption	1988
Charitable donations deduction	1988
Child tax exemption for dependent children	1988

	Year
CPP/QPP contribution deduction	1988
Disability deduction	1988
Education deduction	1988
Equivalent-to-married exemption	1988
Exemption for infirm dependants	1988
Marital exemption	1988
Medical expense deduction	1988
Tuition fee deduction	1988
UI contribution deduction	1988
Provisions added	
Listed personal property loss carry-overs	1984
Employee stock option: partial inclusion rate in income	1984
$500,000 lifetime capital gains exemption (phased in)	1985
Deferred profit sharing plan: partial inclusion rate in income	1985
Employee stock option for CCPC employees	1985
Flexibility arising from artists' inventories:	
valuation and value of charitable donations	1985
Home relocation loan	1985
Labour-sponsored venture capital tax credit	1985
Federal sales tax credit	1986
Salary deferral through a leave of absence/sabbatical plan	1987
Provisions enriched or extended	
Moving expense deduction: extended to individuals unemployed immediately before moving to new job	1984
Alimony and maintenance deduction: includes amounts paid to a third party	1984
Disability deduction: extended to:	
individuals confined to a bed or wheelchair	1984
markedly restricted individuals	1986
increased amounts	1986
Tax credit for research and development: increased refunding from 40 per cent to 100 per cent	1985
Investment tax credit: for investments in Cape Breton	1985
Old age security	1986

	Year
RPP eligible contributions for deduction	1986
RRSP contribution limits	1986
Northern benefits: monthly deduction extended to all residents	1987
Child care expense deduction: increased amounts and family limit removed	1988
Education tax credit	1988
Child tax credit:	
increased amount	1986-1987-1988
supplement	1988
prepayment for low family income	1986
partial indexation	1989
Labour-sponsored venture capital tax credit extended to nationally registered LSVCCs	1988
Medical expense tax credit: cap for high income eligibility	1988
Deduction of restricted farm losses by part-time farmers	1989
Increased federal sales tax credit	1988-1989
Flexibility in inventory accounting	1989
Deduction for artists and musicians	1991
GST Credit	1991

APPENDIX D

CHANGES TO THE CORPORATE INCOME TAX SYSTEM 1983-1990

	Year
Provisions eliminated	
Additional allowance for scientific research	1983
Scientific research tax credit	1985
Cumulative deduction account	1985
Non-qualified business rules withdrawn	1985
Special recovery share purchase tax credit	1986
Inventory valuation adjustment	1986
Small business development bonds	1987
ITCs – general rate	1989
Earned depletion	1989-1990
Corporate surtax calculation	1989
Provisions reduced or restricted	
Partial refundability for ITCs	1987
ITCs – rate changes, claim limitations	1987-1988-1989
Dividends received by venture capital corporations	1987
Preferred share financing – elimination of tax benefit when used by loss corporations	1987
Doubtful account reserves calculation (e.g., loan loss reserves of banks, life insurance policy reserves, life insurance policy dividend reserve, unpaid claim reserve)	1987
Canadian investment income (insurance companies)	1987
Flow-through shares – types of shares ineligible	1987
Capital gains:	
inclusion rate increased to two-thirds	1988
inclusion rate increased to three-quarters	1990
Eligible capital property (goodwill and intangibles) – change in write-off rate	1988
Capital cost allowance – change in various rates	1988-1990
Business meals and entertainment expense deduction	1988
Issuing securities – capitalizing costs	1988

	Year
Vacant land – capitalizing interest and property taxes	1988
Corporate surtax calculation	1989
Large corporations tax	1989
Available for use rules	1990
Provisions added	
Partial refundability of ITCs	1983
Special recovery share purchase tax credit	1983
International banking centres	1987
CCA for point-of-sale equipment – fast write-off	1989
Provisions enriched or extended	
Non-capital loss carry-over period extended	1984
Foreign tax credit carry-over period extended	1984
CCA – increased rate for video tapes, games, cable TV equipment	1984
ITCs – for Cape Breton	1985
ITCs – increased refundable SR&ED ITC	1985
Net capital loss carry-over period extended	1985
Non-qualified business rules	1985
Allowable business investment losses – rules permitting claim made more generous	1985
Small business development bonds – two-year extension	1986
ITCs – Special ITC program extended	1986
Refundable ITC period extended	1986
ITCs – higher rate for Atlantic offshore	1986
Extension of SITC beyond scheduled expiry date	1987
Small business deduction – rate change	1987-1988
Manufacturing and processing profits deduction – rate change	1987-1988-1989-1990
Co-operative corporations – broadening the categories of members	1987
Successor corporations – infinite levels	1987
Advertising in non-Canadian publications – revision in definition because of Free Trade Agreement	1988
Livestock drought relief – deferral of income	1988
Flexibility in inventory accounting	1990

APPENDIX E

CROSS-REFERENCE OF CORPORATE MEASURES WITH *ACCOUNT OF THE COST OF SELECTIVE TAX MEASURES* (1985)

Items in this report	1985 classification
Tax rate reductions	
Low tax rate for small businesses	B.31.
Low tax rate for manufacturing and processing	B.34.
Low tax rate for credit unions and co-operatives	B.32.
Exemption from branch tax for transportation, communication, banking, and mining iron ore corporations	B.36.
Exemption from tax for international banking centres	n.a.
Tax credits	
Investment tax credit applicable to SR&ED	C.37.(a).
Atlantic Canada investment tax credit	C.37.
Special investment tax credit	C.37.
Cape Breton investment tax credit	C.37.
Exploration tax credit	C.37.
Logging tax credit	C.39.
Political tax credit	XIII.F.62.
Exemptions and deduction	
Partial inclusion of capital gains	A.3.(a)(b)
Resource allowance	
Resource allowance in lieu of deductibility of provincial royalties	A.14
Deductibility of provincial joint venture payments for the Syncrude project	A.14.(a)
Deductibility of royalties paid to Indian bands	n.a.
Earned depletion	A.12.
Deductibility of itemized charitable donations	A.23.
Gifts to the Crown	XIII.F.63.
Non-deductibility of advertising expenses in foreign media	10.(a)
Non-taxation of provincial assistance for venture investments in small business	A.19.

Items in this report	1985 classification
Deferrals	
Canadian development expenses	A.11.
Canadian exploration expenses	A.13.
Capital equipment used for SR&ED	n.a.
Available for use	n.a.
Deductibility of carrying charges on land	n.a.
Allowable business investment loss	A.4.
Capital gains taxation on realization basis	n.a.
Expending of advertising costs	A.10.
Cash basis accounting	I.A.24.
Flexibility in inventory accounting	I.A.25.
Deferral of income	
On grain sales	I.A.26.
On destruction of livestock	I.A.26.
Holdback on progress payments to contractors	III.A.27.
Deferral of tax from use of billed-basis accounting by professionals	X.A.30.
International	
Exemptions from non-resident withholding tax	
For interest on foreign currency deposits	D.40.
For interest on long term corporate securities	D.41.
For the use in Canada of motion picture films, etc.	n.a.
Non-taxation of life insurance companies' world income	IX.A.9.
Tax exemption on income of foreign affiliates of Canadian corporations	n.a.
Exemption of foreign shipping and aircraft companies from Canadian income tax	D.43.

Items in this report	1985 classification
Other tax expenditures	
Transfer of income tax room to provinces in respect of shared programs	XIII.F.55.
Exemption from non-resident withholding tax for interest on federal, provincial and municipal direct and guaranteed debt	XIII.F.56-58
Non-taxation of registered charities	XIII.F.59.
Income tax exemption for provincial and municipal corporations	XIII.F.60.
Non-taxation of certain federal crown corporations	XIII.F.61.
Memorandum items	
Excess of tax depreciation over book depreciation	A.1.
Refundable Part I tax on investment income of private corporations	E.45.
Refundable capital gains for special investment corporations	E.46.
Investment corporation deduction	E.44
Loss carry-overs	
Non-capital loss	n.a.
Net capital loss	n.a.
Meals and entertainment expenses	n.a.
Large corporations tax	
Threshold	n.a.
Exempt corporations	n.a.
Patronage dividend deduction by credit unions and co-operatives	A.22
Non-resident-owned investment corporation refund	E.47.
Interest credited to life insurance policies	n.a.
Deferral of capital gains income through various rollover provisions	A.3.(c)
Excess deduction for intangible assets	A.9.