Government of Canada
Tax Expenditure Account

An account of tax preferences in the federal income and commodity tax systems, 1976-1980

December 1980

HJ2449
C35
1980
c.2

FINANCE - TREASURY BOARD
LIBRARY
DEC 23 1980
BIBLIOTHÈQUE
FINANCES CONSEIL DU TRÉSOR

Department of Finance
Canada

Ministère des Finances
Canada

For further information on the paper:
Tax Analysis and Commodity Tax Division,
Department of Finance, Ottawa, K1A 0G5
(613) 992-4836

Fin/TB Library - Bibliothèque Fin/CT
3 0145 00047750 2

HJ 2449
O35
1980
c. 2

I. INTRODUCTION

In December 1979, a study entitled the Government of Canada Tax Expenditure Account (hereinafter referred to as the 1979 Account), was released by the federal government. It outlined the concept of tax expenditures and provided preliminary estimates of their impact on tax revenues for 1976 and 1979. This paper is an update of that analysis. It describes the changes that have occurred or are being proposed in tax expenditure provisions since the publication of the 1979 Account and provides revised and updated estimates of their revenue impact for the years 1976 to 1980. It does not include changes in tax expenditures proposed in the October 28, 1980 budget.

II. DEFINITION OF TAX EXPENDITURES

The basic concept of a tax expenditure is a provision in the tax system that provides preferential treatment to certain taxpayers in comparison to a norm or benchmark tax structure. This preferential treatment typically takes the form of deductions or exclusions from income, tax deferrals, exemptions, lower tax rates, or tax credits. These kinds of tax provisions are often alternatives or substitutes for programs involving direct budgetary expenditures or loans and advances. However, not all such provisions in the tax statutes are tax expenditures. Only those provisions which represent deviations from the benchmark tax structure are considered tax expenditures. Generally, the benchmark tax structure is one that provides no preferential treatment to taxpayers on the basis of demographic characteristics, sources or uses of income, geographic location, or any other special circumstance applicable only to a given taxpayer or to a particular group of taxpayers.

Important conceptual issues arise in providing a complete specification of the benchmark tax structure. These issues are discussed at considerable length in the 1979 Account.

III. TAX EXPENDITURES AND THE ENVELOPE SYSTEM

Under the previous fiscal management system, tax expenditures had no direct impact on budgetary allocations, either in aggregate or at the level of individual programs. While the initial direct expenditure targets did take into account the government's overall fiscal position, as well as incentives provided through the tax system, any subsequent introduction or modification of tax expenditure provisions during the year did not generally trigger a corresponding adjustment in the initial direct expenditure targets. This system was anomalous in that tax expenditures are in many ways no different than direct budgetary outlays. Both have the effect of increasing the government deficit and of increasing the support provided to a given policy area. However, because tax expenditures did not directly influence budgetary allocations, incentives existed for departments and ministers responsible for individual policy areas to put greater emphasis on providing incentives through the tax system. Tax expenditures could thus be used as an indirect method of increasing the funds made available to particular policy areas.

The government of Canada has now adopted a new expenditure management system. This system involves setting targets for total government outlays and for outlays in each broad policy area such as economic development, social development, and foreign policy and defence. Funds allocated to these broad policy areas are referred to as expenditure envelopes. Allocation of funds within an envelope is determined primarily by a committee comprised of ministers responsible for programs in the policy area.

This new expenditure management system has removed the anomaly that previously existed with respect to tax expenditures. Under the new system, the revenue cost of any changes in tax expenditures proposed by program ministers will reduce the envelope allocation for that particular policy area. The fiscal discipline implied by the initial envelope allocations can no longer be avoided through the use of tax incentives. While program ministers can make proposals for changes in tax expenditures, their introduction is subject to concurrence of the Minister of Finance, who continues to have overall responsibility for the tax system. It is expected that the new system will lead to better appreciation of incentives provided through the tax system, and a fuller consideration of their fiscal implications in the expenditure planning process.

IV. CHANGES IN TAX EXPENDITURES

The table attached to this paper enumerates tax expenditures and provides estimates of their revenue import. Since the publication of the 1979 Account, certain changes in tax expenditures have occurred or been proposed. The more important of these are as follows. (The bracketed references are to the numbering of the items in the table which follows.)

A. New Tax Expenditures

1. Overseas employment exemption (item II.3). To aid Canadians seeking overseas contracts, it is proposed that starting with the 1980 taxation year, Canadian employees working abroad more than six months can exclude half their overseas employment income up to a maximum of $50,000 from income for tax purposes. This measure applies to persons working on construction, installation, agricultural and engineering projects, in resource exploration and development, or other prescribed activities.

2. Small business development bonds (item V.G.8). This new tax expenditure is similar to the tax expenditure for income debentures and term preferred shares (item V.I.30) which was significantly curtailed in the November 16, 1978 budget. Qualifying small business corporations are able to issue up to $500,000 of eligible debt. To be eligible, the corporation issuing the debt must be in financial difficulty or the debt must be generally used for the acquisition of certain defined capital assets or to finance research and development. The interest payments on this debt, instead of being a deductible expense to the borrower and income to the lender, are treated for tax purposes as intercorporate dividends which are non-deductible to the borrower and

non-taxable to the lender. This measure, proposed in the April 21, 1980 Notice of Ways and Means Motion, is temporary and is currently scheduled to expire on March 31, 1981.

3. Low corporate tax rate on professional income (item V.G.9). Under the Income Tax Act, the "active business income" of small business corporations is taxable at the preferential rate of 15 per cent (10 per cent for manufacturing and processing). Special provisions were proposed in the November 1978 budget to deny the benefit of this low rate to incorporated doctors, dentists, lawyers, and accountants and to certain corporations providing personal or managerial services. The measures actually adopted in October 1979 provided instead for a separate low rate of 23 1/3 per cent for such corporations, and incorporated veterinarians and chiropractors were also made subject to the same low rate of tax.

4. Non-taxation of vacation-with-pay trusts (item V.H.7). In a number of industries such as construction, paid vacations are arranged by having employers and possibly employees contribute to vacation-with-pay trusts. Subsequently, the trust makes payments to entitled workers during their vacations. The April 21 Ways and Means Motions proposes to exempt from tax retroactively to 1972 any income earned in such trusts.

B. Expanded Tax Expenditures

1. Non-taxation of certain allowances to volunteer firemen (item I.B.2). Starting in 1980, it is proposed that the limit on non-taxable allowances for volunteer firemen be increased from $300 to $500.

2. Two-year write-off on energy conservation machinery and equipment (class 34, item V.D.2.). It is proposed that this temporary tax expenditure be extended for four years to cover acquisitions of qualifying equipment up to December 31, 1984, and that the range of qualifying equipment also be expanded, for example to include certain district and solar heating systems, and small-scale hydro-electric generating facilities.

3. Non-taxation of employee benefits in the form of subsidized loans (item V.H.3). This tax expenditure allows a portion of the value of the subsidy element of loans to shareholders and employees to be excluded from their income for tax purposes. Starting in 1979, it is proposed that this tax expenditure be extended to include the spouse of the shareholder in the case of housing loans.

4. Income tax abatement to Quebec for contracting out of the shared-cost programs (item IX.1). The Income Tax Act provides a special abatement of 16.5 per cent of federal basic tax to residents of Quebec in lieu of federal cost sharing for programs such as health care and education. Starting with the 1980 taxation year, it is proposed that where a taxpayer's federal tax liability is less than the amount of the abatement, the difference will be refunded to him. As a result the magnitude of this tax expenditure will be increased.

C. Tax Expenditures Reduced or Eliminated

1. Fast write-off for Canadian development expenses (item V.B.2). Before December 11, 1979, the costs of acquiring Canadian resource properties were treated as Canadian development expenses and could be written off at a 30-per-cent declining balance rate. It is proposed that these costs be written off only at a 10-per-cent rate, with a consequent reduction in the Canadian development expense tax expenditure.

2. Additional earned depletion on frontier oil and gas well exploration ("super depletion", item V.B.5). This temporary tax expenditure expired at the end of March 1980.

3. Non-adjustment of specific sales tax rate on gasoline (item V.B.14). The sales tax on gasoline has been converted from a specific levy to an ad valorem levy, thereby ending this tax expenditure. The enabling legislation, however, has not yet been approved by Parliament.

4. Lower corporate income tax rate for small business corporations (item V.G.1). The range of incomes that are eligible for this low tax rate has been reduced. Specifically, certain professionals and other corporations (see Low corporate tax rate on professional income (item V.G.9) above) are no longer eligible for this lower (15-per-cent) rate on active business income. Also, some other small business corporations with mainly passive investment income are excluded from using the low tax rate.

5. Deductibility of employer contributions to non-registered employee benefit plans (item V.H.6). Prior to December 11, 1979, the Income Tax Act did not contain a sufficient prohibition against deductions of contributions made by an employer to employee benefit plans not explicitly mentioned in the Act. For example, deductions are specifically allowed for employer contributions to registered pension plans but not for unregistered pension and deferred compensation plans. It is proposed that the tax expenditure in respect to deductions for these latter employee benefit plans be ended effective December 11, 1979.

6. Deductibility of prepaid expenses (item V.I.34). A proposed change will largely end this tax expenditure with respect to outlays made after December 11, 1979.

7. Multiple unit residential buildings (MURB) provision (item VI.E.4). MURBs started after December 31, 1979, when the provision expired, are not eligible for preferential tax treatment in the form of a tax shelter. Thus, losses from such rental properties attributable to capital cost allowances are not available for offset against other income. However, existing MURBs that were already eligible for this tax shelter treatment continue to benefit after 1979. (Note that the October 1980 budget reintroduces this tax expenditure for MURBs started between October 29, 1980 and December 31, 1981.)

D. Changes to Memorandum Items

The 1979 Account provided information on a number of items which are not tax preferences. Some, such as special commodity taxes, can be considered as tax penalties or negative tax expenditures. The major changes in these items are as follows.

1. Tobacco levies (item XII.B.2.b.). Excise taxes on tobacco products have been increased, effective April 21, 1980. (This increase has not yet been approved by Parliament).

2. Alcohol levies (item XII.B.2.c). Excise taxes and duties on alcohol products have been increased, effective April 21, 1980. (This increase has not yet been approved by Parliament.)

3. Non-deductibility of salary paid to spouse by unincorporated business (item XII.D.8). Starting in 1980, it is proposed that reasonable salaries paid by an unincorporated business to the spouse of the proprietor are deductible in computing the income of the business, thereby ending a negative tax expenditure or tax penalty.

V. ERRATA

Two errors in the 1979 Account should be noted. First, former item IV.5, Immediate deductibility of labour costs on capital projects undertaken by railways, is not in fact allowed under the Income Tax Act and thus has been deleted from the Tax Expenditure Account. Second, the description of item VIII.14, exemption of bicycles and tricycles from sales tax, incorrectly stated that replacement parts were also exempt from sales tax.

VI. QUANTITATIVE ESTIMATES OF TAX EXPENDITURES

The attached table provides updated and extended quantitative estimates of federal tax expenditures in the years 1976 to 1980 for the individual and corporate income tax and sales and excise tax systems. All figures are on a calendar year basis. The tax expenditure items have generally been grouped using the same functional categories that are used in the Public Accounts of Canada. A number of important cautionary points should be borne in mind when considering these figures.

A. Estimating Assumption

The revenue impact of each provision is estimated by simulating the change in federal revenues as if that provision alone had never existed, keeping all other provisions in place. Revenue impacts are thus being measured relative to the existing rather than to the benchmark tax structure. As a result, the revenue impact of eliminating two tax expenditure items simultaneously is not generally the same as the sum of the individual revenue impacts shown in the table. For example, eliminating both the $1,000 investment income deduction and the RHOSP deduction would push many more individuals into higher tax brackets than if just one deduction were eliminated, so that the combined revenue effect of eliminating two items would be greater than the sum of the two separate effects. A similar phenomenon exists in the corporate income tax.

A further implication of this estimating assumption is that the revenue impacts shown here are not necessarily equal to the estimates of revenue impact which are provided in the budget papers when any measures are first introduced. This is particularly true of tax expenditures in the nature of tax deferrals. Estimates in the budget papers for such a measure show the impact on government cash flows in the immediately following fiscal years. They take no account of the fact that deferral measures involve a maturing process and their costs vary over time. For those measures that have been in place for a number of years, the estimates provided in the tax expenditure account do reflect this maturing process. In these kinds of situations the revenue impact, in the first year, of eliminating a given tax expenditure, assuming no retroactive effect, would be materially different than the estimates given in this document.

B. Estimates Not Available

Some of the items which have not been quantified are significant in value. For example, the value of tax preferences in the form of non-taxation of various fringe benefits of employment cannot currently be estimated but is quite likely to be of the order of several hundred million dollars a year.

C. Behavioural Responses

Taxpayer behaviour is assumed to remain unaffected by the assumed deletion of a tax expenditure provision. Generally, elimination of any tax expenditure provision would cause taxpayers to rearrange their affairs to minimize the impact of the change and thus result in smaller increases in revenue than is implied by the estimates given here. Similarly, the impact of eliminating tax expenditure provisions on the overall level of economic activity and the resultant feedback effect on government revenues is also ignored in the revenue estimates. (Of course, Public Accounts figures for direct program expenditures also take no account of such behavioural or feedback effects.)

D. Estimation Error

Many of the estimates are highly tentative in nature and are subject to wide margins of error. Some have been subject to significant revisions. This is particularly true of the estimates of tax expenditures available to the business sector. Because of resource constraints and data limitations, it has not been possible to provide estimates for a number of important business incentives or to simulate others with a reasonable degree of accuracy. Moreover, the volatility of business conditions, including profit performance, precludes accurate forecasts of many provisions which are of a very specific nature. It is expected that there could well be significant revisions to the estimates in future years as better data and more sophisticated estimating techniques become available.

E. Changes in Estimating Methodology

There are changes in estimating methodology for two items. One relates to the treatment of unemployment insurance contributions by employees and employers. The 1979 Account identifies the deductibility of these contributions for income tax purposes as a tax expenditure. Under the benchmark system, employees would not be allowed any deduction for their contributions. While employers would be able to claim a deduction of their contributions as a legitimate business expense, employees would be required to include their respective shares of the employer contributions in their own income as a taxable benefit. The estimating methodology used in the 1979 Account was not consistent with this conceptual framework in regard to employer contributions. Their revenue impact was estimated by simulating a denial of this deductibility to the employers rather than by allowing their deductibility to employers and requiring their taxation in the hands of the employees. The estimates in the updated tables in this paper are based on the correct procedure and the tax expenditure for both employee and employer contributions is classified under the personal income tax.

The second change is similar and relates to workmen's compensation benefits. The 1979 Account treated both the deductibility by employers of contributions for workmen's compensation and the non-taxation of benefits in the hands of employees as tax expenditures. The current update assumes that contributions by employers are a legitimate business expense and should be deductible by them under the benchmark system. Thus, it is only the non-taxation of benefits that gives rise to a tax expenditure.

F. No Totals

No total or sub-total amounts are given in the table. This is because of the points outlined above. Most importantly, the revenue impact of simultaneously eliminating two tax expenditures is generally not the same as the sum of their individual revenue impacts; and estimates for some tax expenditure items are not yet available so totals that omitted those items could be misleading.

G. Net versus Gross Values

In considering the value of any particular tax expenditure item, it must be realized that the value to the taxpayer of a dollar of tax preference is often worth substantially more than a dollar of equivalent direct spending. This results from the fact that, while all tax expenditures directly increase after-tax incomes of taxpayers by the amount of revenue forgone, government grants are generally taxable to the recipients. Thus, the value to the taxpayer of a dollar's tax preference may be worth between $1.50 and $2.00 in direct spending. (For example, for a family in a 33 1/3-per-cent tax bracket, the $200 child tax credit is equivalent on a net of tax basis to a $300 taxable family allowance benefit.)

H. Provincial Tax Expenditures

While the amounts shown in the table are the federal values of various tax expenditures, there is typically an associated provincial tax expenditure in the case of individual and corporate income tax expenditures. Thus, the combined federal plus provincial revenue impact of individual tax expenditures will typically be about one-third to one-half greater than the federal values shown.

I. Changes in the Benchmark

Changes in the tax system over the period from 1976 to 1980 have affected the values of a number of tax expenditures. The federal sales tax reduction contained in the November 1978 budget (though not yet approved by Parliament), being general in scope, is not counted as a tax expenditure. At the same time, it serves to reduce both the actual and benchmark rates of federal sales tax from 12 to 9 per cent. This, in turn, has the effect of reducing the value of existing tax preferences in the federal sales tax area. For example, the sales tax preference for building materials, currently taxed at a 5-per-cent rate, has been reduced from 7 percentage points to 4 percentage points. This phenomenon is particularly evident in the health and welfare area because of the number and value of tax expenditures there arising from various sales tax exemptions. A similar phenomenon occurred for individual income tax expenditures in 1977 because of the abatement of additional tax points to the provinces which served to reduce federal individual income tax rates. The proposed imposition of a temporary 5-per-cent corporate surtax also serves to increase the benchmark rate of corporate income tax and consequently the magnitude of a number of corporate tax expenditures.

November 13, 1980

TABLE 1

ESTIMATED VALUES OF GOVERNMENT OF CANADA TAX EXPENDITURES BY FUNCTIONAL CATEGORY, 1976 TO 1980

Functional Category and Item	Tax	1976	1977	1978	1979	1980
				($ millions)		
I. GENERAL GOVERNMENT SERVICES						
A. Legislation and Administration						
1. Political Contribution Tax Credit	PIT	2.4	3.3	3.8	5.6	n.a.
	CIT	0.5	0.5	0.6	n.a.	n.a.
2. Non-taxability of income from the Office of Governor General	PIT	s	s	s	s	s
3. Exemption of goods purchased by the Office of the Governor General from sales tax	SET	s	s	s	s	s
B. Protection of Persons and Property						
1. Non-taxation of R.C.M.P. pension or compensation for injury, disability or death	PIT	0.1	0.1	0.1	0.1	0.1
2. Non-taxation of certain allowances to volunteer firemen (M)	PIT	1.5	1.5	1.6	1.7	2.0

Symbols: n.a.: Estimates not available.
- : Not applicable.
s : Revenue impact expected to be small, less than $5 million.
* : Value included elsewhere.
PIT : Personal income tax system.
CIT : Corporate income tax system.
SET : Sales and excise tax system.
N : New item since previous Account published.
M : Item modified since previous Account published.

NOTE: The items in this table are described individually in the December 1979 document, Government of Canada Tax Expenditure Account (Department of Finance, Ottawa).

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
			($ millions)			
II. FOREIGN AFFAIRS						
1. Tax sparing for developing countries	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
2. Non-taxation of Special Allowance for Diplomats and other government employees posted abroad	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
3. Overseas employment exemption (N)	PIT	-	-	-	-	n.a.
III. DEFENCE						
1. Non-taxation of Veterans Allowances, Civilian War Pensions and Allowances, and other Service Pensions	PIT	60	60	65	70	80
2. Non-taxation of Service Pensions from another country	PIT	s	s	s	s	s
3. Non-taxation of income from War Savings Certificates	PIT	s	s	s	s	s
4. Exclusion of the research and development component of defence purchases from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.
5. Exemption of defence memorials and monuments from sales tax	SET	s	s	s	s	s
IV. TRANSPORTATION AND COMMUNICATION						
1. Exemption of transportation equipment from sales tax	SET	195	205	270	240	265
2. Investment tax credit on transportation equipment	CIT	-	s	5	30	40

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
				($ millions)		
3. Exemption from branch tax for transportation and communication companies	CIT	s	s	s	s	s
4. Exemption of foreign shipping and aircraft companies from Canadian income tax	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Additional depreciation allowances on railway system assets	CIT	-	s	5	12	18
6. Fast write-offs for communication satellites	CIT	*	*	*	*	*
7. Excess of the tax depreciation over book depreciation, General	CIT	135	135	200	210	230
V. ECONOMIC DEVELOPMENT AND SUPPORT						
A. Farming and Fishing						
1. Five-year block averaging for farmers and fishermen	PIT	4.6	5.6	6.2	n.a.	n.a.
2. Cash basis accounting	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
3. Flexibility in Inventory Accounting	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
4. Deferral of tax on capital gains on inter-generational rollovers of family farms	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Additional depreciation allowance on grain storage facilities	CIT	*	*	*	*	*

TABLE 1 (Continued)

Functional Category and Item		Tax	1976	1977	1978	1979	1980
					($ millions)		
6.	Excess of tax depreciation over book depreciation, General	PIT CIT	15 s	14 s	16 s	18 s	20 s
7.	Investment tax credit on farming and fishing investments	PIT CIT	35 s	35 5	45 10	75 10	90 15
8.	Deferral of income on grain sales and from destruction of livestock	PIT CIT	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.	n.a. n.a.
B.	Resource Sector						
1.	Fast write-off for Canadian exploration expenses	PIT	s	s	s	s	s
2.	Fast write-off for Canadian development expenses (M)	CIT	335	530	755	1000	1250
3.	33 1/3 per cent earned depletion allowance						
4.	Additional earned depletion for heavy oil and tertiary recovery projects	CIT	-	-	-	n.a.	n.a.
5.	Additional earned depletion on frontier oil and gas well exploration costs (M)	PIT CIT	- -	10 20	20 45	30 65	10 20
6.	Drilling funds	PIT	15	30	50	80	100
7.	Accelerated depreciation for mining assets	CIT	*	*	*	*	*
8.	Additional depreciation allowances on offshore drilling vessels	CIT	5	5	5	5	5
9.	Excess of tax depreciation over book depreciation, General	CIT	170	195	275	295	370

TABLE 1 (Continued)

Functional Category and Item		Tax	1976	1977	1978	1979	1980
				($ millions)			
10.	Resource allowance and deductibility of provincial royalties for the Syncrude Project	CIT	0	0	0	0	25
11.	Exemption of iron ore mining from branch tax	CIT	s	s	s	s	s
12.	Taxation of sulphur production at manufacturing tax rates	CIT	-	n.a.	n.a.	n.a.	n.a.
13.	Investment tax credit on resource investments	CIT	50	60	70	90	125
14.	Non-adjustment of specific sales tax rate on gasoline (M)	SET	-	40	125	40	45
15.	Capital gains treatment for prospectors and grubstakers	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
		CIT	n.a.	n.a.	n.a.	n.a.	n.a.
C.	Regional Development						
1.	Portion of investment tax credit	PIT	-	*	*	*	*
		CIT	-	*	*	*	*
2.	Portion of employment tax credit	PIT	-	-	*	*	*
		CIT	-	-	*	*	*
D.	Energy Conservation						
1.	Exemption of energy conservation goods and insulation materials from sales tax	SET	20	23	28	14	17
2.	Two-year write-off on energy conservation machinery and equipment (M)	CIT	s	s	s	s	s
3.	Non-taxation of Home Insulation Grants in Nova Scotia and Prince Edward Island	PIT	-	2.9	7.1	3.0	2.7

TABLE 1 (Continued)

Functional Category and Item		Tax	1976	1977	1978	1979	1980
				($ millions)			
E.	Manufacturing Sector						
1.	Lower corporate income tax rates on manufacturing and processing profits	CIT	280	264	320	500	600
2.	Investment tax credit on manufacturing investments	CIT	40	65	85	125	170
3.	Two-year write-off on manufacturing and processing assets	CIT	235	215	380	450	500
4.	Additional depreciation allowances on Canadian built ships	CIT	*	*	*	*	*
5.	Excess of tax depreciation over book depreciation, General	CIT	95	80	135	155	175
F.	Research and Development						
1.	Immediate write-off on R&D expenditures	PIT	s	s	s	s	s
		CIT	40	48	54	58	63
2.	Additional allowance of 50 per cent of incremental R&D expenditures	CIT	-	-	28	32	34
3.	Investment tax credit on R&D expenditures	CIT	-	10	20	40	45
4.	Non-taxation of non-profit scientific research corporations	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
5.	Exemption of scientific apparatus from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
				($ millions)		
G. Small Business						
1. Lower corporate income tax rate (M)	CIT	745	748	950	1200	n.a.
2. Deferral of up to $200,000 of capital gains on inter-generational transfers of small businesses	PIT	-	-	n.a.	n.a.	n.a.
3. Preferential income tax treatment of certain stock options issued to employees of private corporations	PIT	-	n.a.	n.a.	n.a.	n.a.
4. Full offset of capital losses on private company shares and debt obligations	PIT	-	-	n.a.	n.a.	n.a.
	CIT	-	-	n.a.	n.a.	n.a.
5. Special investment tax credit on R&D expenditures by small businesses	CIT	-	-	s	5	6
6. Sales tax exemption on up to $50,000 of manufacturing sales ($10,000 prior to June 1, 1978)	SET	5	5	15	20	20
7. Non-taxation of provincial assistance for venture investments	PIT	-	0	0	0	n.a.
	CIT	-	0	0	0	n.a.
8. Small business development bonds (N)	CIT	-	-	-	-	n.a.
9. Low corporate tax rate on professional income (N)	CIT	-	-	-	n.a.	n.a.
H. Labour Force						
1. Deductibility of employer contributions to Deferred Profit Sharing Plans	CIT	25	30	35	45	60
2. Employment tax credit	PIT	-	-	s	70	85
	CIT	-	-			
3. Non-taxation of employee benefits in the form of subsidized loans (including housing loans within prescribed limits)(M)	PIT	n.a.	n.a.	n.a	n.a.	n.a.

TABLE 1 (Continued)

	Functional Category and Item	Tax	1976	1977	1978	1979	1980
			($ millions)				
4.	Non-taxation of employer premiums on group term life insurance of up to $25,000	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
5.	Non-taxation of other non-monetary benefits of employment (e.g. employee discounts)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
6.	Deductibility of employer contributions to non-registered employee benefit plans (M)	PIT	n.a.	n.a.	n.a.	n.a.	-
7.	Non-taxation of vacation-with-pay trusts (N)	PIT	-	-	-	-	n.a.
I.	General Business and Investment Incentives						
1.	Investment tax credit not included elsewhere	PIT	5	10	10	15	15
		CIT	10	15	20	30	35
2.	Non-taxation of one half capital gains income realized after 1971	PIT	150	175	260	350	500
		CIT	125	145	190	225	300
3.	Non-taxation of realized capital gains income accrued prior to 1972	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
		CIT	n.a.	n.a.	n.a.	n.a.	n.a.
4.	Preferential treatment of distributions of pre-1972 corporate surplus	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
5.	Flow through of capital gains for private corporations	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
6.	Preferential treatment of stock dividends of public corporations	PIT	-	n.a.	n.a.	n.a.	n.a.
7.	$1,000 capital gains exemption for personal use property transactions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
8.	$200 capital gains exemption on foreign exchange transactions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
9. Deferral of capital gains income through various rollover provisions						
a. involuntary dispositions	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
b. voluntary dispositions	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
c. transfer to a corporation for consideration including shares						
10. Accrued capital gains income not included elsewhere	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
11. Dividend gross-up and tax credit for individuals	PIT	170	180	540	685	800
12. Refunds of Part I tax on investment income of private corporations	CIT	75	120	100	n.a.	n.a.
13. Preferential treatment of investment and other special corporations	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
14. Lower tax rate for investment corporations	CIT	s	s	s	s	s
15. Deductibility of patronage dividends by credit unions and other cooperatives	CIT	50	45	55	n.a.	n.a.
16. Lower corporate income tax rate for credit unions and other co-operatives	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
17. $1,000 investment income deduction	PIT	455	455	515	600	665
18. Other accrued investment income not included elsewhere	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item		Tax	1976	1977	1978	1979	1980
			($ millions)				
19.	Non-taxation of investment income on life insurance policies	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
20.	Tax deferral from certain deductions for policy reserves of insurance companies	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
21.	Non-taxation of life insurance companies' world income	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
22.	Exemption from withholding tax for interest on long-term corporate securities	CIT	25	50	70	85	110
23.	Exemption from withholding tax for interest on foreign currency deposits	CIT	100	125	200	350	400
24.	Reduction in withholding tax for corporations having a degree of Canadian ownership	CIT	15	20	25	30	35
25.	Two-year write-off on pollution control equipment	CIT	*	*	*	*	*
26.	Excess of tax depreciation over book depreciation not included elsewhere	PIT	90	95	110	115	125
		CIT	90	95	50	120	95
27.	3-per-cent inventory valuation adjustment	PIT	-	25	30	30	35
		CIT	-	260	280	300	370
28.	Exemption of banks from branch tax	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
29.	Excess of doubtful debt reserves over expected amounts (mainly financial institutions)	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
30.	Preferential tax treatment of income debentures and term preferred shares	CIT	40	110	280	400	400

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
31. Tax deferral on income of foreign affiliates of Canadian corporations	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
32. Exemption of metric scales and conversion kits from sales tax	SET	s	s	s	s	s
33. Tax deferral available from Income Averaging Annuity Contracts (IAACs)	PIT	80	90	120	155	200
34. Deductibility of pre-paid expenses (M)	PIT	n.a.	n.a.	n.a.	n.a.	-
	CIT	n.a.	n.a.	n.a.	n.a.	-
35. Deferral of tax from use of holdbacks on progress payments by contractors	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
36. Deferral of tax from use of billed-basis accounting by professionals	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
37. Exemption of non-manufacturing commercial uses of fuel and electricity from sales tax	SET	175	235	280	240	290
38. Tax losses from fast write-offs of certain leased assets	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
VI. HEALTH AND WELFARE						
A. Health						
1. Deductibility of medical expenses	PIT	27	26	28	32	35
2. Portion of charitable deduction and non-taxation of registered charities	PIT	*	*	*	*	*
	CIT	*	*	*	*	*
3. Exemption of drugs from sales tax	SET	80	85	95	75	80

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
			($ millions)			
4. Exemption of purchases by hospitals, sanatoria, etc. from sales tax	SET	105	115	130	115	125
5. Exemption of health applicances from sales tax	SET	11	12	13	11	12
B. Income Maintenance						
1. $1,000 pension income deduction	PIT	78	80	95	100	105
2. Age exemption under the personal income tax	PIT	128	125	160	175	185
3. Non-taxation of Guaranteed Income Supplement and Spouses Allowance payments	PIT	s	s	s	s	s
4. Tax advantage on savings in Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs)	PIT	1400	1360	1650	2000	2600
5. Portion of tax deferral available from Income Averaging Annuity Contracts (IAACs)	PIT	*	*	*	*	*
6. Tax advantage on savings in Canada and Quebec Pension Plans (CPP/QPP)	PIT	265	265	325	405	540
7. Rollovers into RRSPs	PIT	*	*	*	*	*
8. Deductibility of support payments	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
9. Income splitting through interest-free loans between family members	PIT	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
10. Marital exemption	PIT	930	910	945	1000	1055
11. Exemption for wholly-dependent children	PIT	610	610	650	650	655
12. Exemptions for other dependants	PIT	30	25	25	25	25
13. Child tax credit	PIT	-	-	875	925	975
14. Preferential Tax Treatment of Workmen's Compensation	PIT	180	180	200	220	240
15. Non-taxation of income from personal injury awards (including awards for Thalidomide injuries)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
16. Non-taxation of strike pay	PIT	3.1	2.3	4.5	n.a.	n.a.
17. Non-taxation of up to $10,000 of death benefit	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
18. Exemption of food and non-alcoholic beverages from sales tax	SET	2040	2260	2520	2110	2370
19. Exemption of home-heating fuels and electricity from sales tax	SET	260	305	375	300	365
20. Exemption of clothing and footwear from sales tax	SET	500	530	585	495	555
21. Deductibility of unemployment insurance premiums	PIT					
a. employee costs		215	210	235	240	250
b. employer costs		300	300	335	335	365
22. Preferential Tax treatment of registered supplementary unemployment insurance plans	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
23. Inter-spousal capital gains rollover	PIT	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
				($ millions)		
C Social Assistance						
1. Non-taxation of means- and-needs tested and income-tested social assistance benefits	PIT	s	s	s	s	s
2. Exemption for the disabled and the blind	PIT	6	7	8	10	11
3. Exemption of goods manufactured by the handicapped from sales tax	SET	s	s	s	s	s
D. Indians and Eskimos						
1. Non-taxation of income earned by Indians on reserves	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
E. Housing and Urban Renewal						
1. Non-taxation of capital gains on principal residence	PIT	3150	3100	2950	3000	3500
2. Non-taxation of imputed income on equity in owner-occupied residences	PIT	2750	2825	3350	4000	5000
3. Registered Home Ownership Savings Plan (RHOSP) deduction	PIT	105	94	92	95	95
4. Multiple Unit Residential Buildings (MURB) provision (M)	PIT	20	25	40	45	n.a.
	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Deductibility of carrying charges on land	CIT	-	-	s	35	40
6. Non-taxation of income of corporations providing low-cost housing for the aged	CIT	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
7. Portion of charitable deduction	PIT	*	*	*	*	*
	CIT	*	*	*	*	*
8. Non-taxation of first-time home buyer grants	PIT	8	3	-	-	-
9. Reduced rate of sales tax on building materials and equipment	SET	460	525	595	390	445
10. Exemption of construction equipment from sales tax	SET	85	90	100	85	95
11. Exemption of goods in competition with on-site construction from sales tax	SET	115	120	125	100	105
12. Exemption of ready-mix concrete from sales tax	SET					
13. Reduced rate of sales tax on travel trailers used as homes	SET	3	3	3	-	-
VII. EDUCATION ASSISTANCE						
1. Non-taxation of first $500 of scholarship and bursary income	PIT	4.8	3.8	4.2	4.7	5.1
2. $50 per month education deduction	PIT	39	28	27	28	30
3. Deduction of tuition fees	PIT	30	27	29	31	34
4. Deduction of contributions to teachers exchange fund	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Preferential Tax Treatment of Registered Education Savings Plans (RESPs)	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
6. Exemption of construction materials & equipment bought by educational institutions from sales tax	SET	39	40	38	30	32

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
7. Exemption of technical, educational, and other books from sales tax	SET	28	32	36	30	33
8. Portion of charitable deduction and non-taxation of registered charities	PIT	*	*	*	*	*
	CIT	*	*	*	*	*
VIII. CULTURE AND RECREATION						
1. Deductibility of itemized charitable donations and the $100 standard deduction	PIT	320	300	320	345	375
	CIT	35	40	40	45	50
2. Non-taxation of registered charities	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
3. 100 per cent write-off for Canadian films	PIT	n.a.	n.a.	n.a.	15	n.a.
	CIT	*	*	*	*	*
4. Non-taxation of capital gains on gifts of property under the Cultural Property Export and Import Act	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Portion of tax deferral available from Income Averaging Annuity Contracts	PIT	*	*	*	*	*
6. Write-off on art work purchased by businesses	PIT	*	*	*	*	*
	CIT	*	*	*	*	*
7. Non-taxation of lottery and gambling winnings	PIT					
a. government lotteries		50	70	85	105	135
b. other gambling		n.a.	n.a.	n.a.	n.a.	n.a.
8. Deduction for clergymen's residence	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
9. Non-taxation of certain income of individuals who have taken vows of perpetual poverty	PIT	n.a.	n.a.	n.a.	n.a.	n.a.
10. Exemption of newspaper and magazine production from sales tax	SET	48	52	59	50	54

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
				($ millions)		
11. Exemption of a range of cultural and religious materials from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.
12. Exemption of imported antiques from sales tax	SET	s	s	s	s	s
13. Exemption of amusement devices and equipment for use at exhibits or fairs from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.
14. Exemption of bicycles & tricycles from sales tax	SET	9	10	11	9	10
15. Exemption of the outputs of craftsmen, artists, and sculptors from sales tax	SET	8	9	10	8	8
IX. FISCAL TRANSFER PAYMENTS						
1. Income tax abatement to Quebec for contracting out of the shared-cost programs (M)	PIT	965	660	730	775	900
2. Transfers of income tax room to provinces in respect of shared-cost programs	PIT	750	2450	2700	2950	3275
	CIT	170	175	200	245	265
3. Exemption from withholding tax for interest on provincial and municipal debt	CIT	140	190	210	230	240
4. Income tax exemption for provincial and municipal corporations	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
5. Exemptions of a range of municipal purchases from sales tax	SET	85	95	95	80	85
6. Exemption of provincial purchases from sales tax for provinces not party to the Reciprocal Taxation Agreements	SET	90	90	30	30	30

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
		($ millions)				
X. PUBLIC DEBT						
1. Exemption from withholding tax for interest on Government of Canada debt	CIT	10	15	30	45	50
XI. OTHER TAX PREFERENCES						
1. General averaging for individuals	PIT	155	150	190	275	350
2. Non-taxation of certain federal Crown corporations	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
3. Non-taxation of income of various non-profit entities not included elsewhere	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
4. Exemption of goods imported in travellers' baggage from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.
5. Exemption of manufacture of coins from sales tax	SET	n.a.	n.a.	n.a.	n.a.	n.a.
XII. MEMORANDUM ITEMS						
A. Selected Totals						
1. Total tax expenditure value of investment Tax Credit items listed above	PIT	40	45	55	90	105
	CIT	100	155	210	330	435
2. Total tax expenditure value of items listed above for CCA claims in excess of book depreciation	PIT	105	110	125	150	145
	CIT	730	725	1050	1250	1400
3. Cumulative amount of federal corporate income taxes deferred per companies books	CIT	8,450	9,850	n.a.	n.a.	n.a.

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
			($ millions)			
4. Cumulative amount of tax deferrals and reductions due to deductibility of contributions to RRSPs and RPPs	PIT	15,250	15,750	17,750	20,000	22,000
5. Cumulative amount of tax deferrals and reductions due to deductibility of CPP/QPP contributions	PIT	2,875	3,050	3,525	4,000	4,500
B. <u>Commodity Tax</u>						
1. Exemption of services from the sales tax base	SET	4480	4960	5490	4590	5110
2. Other commodity taxes in excess of manufacturers sales tax	SET					
a. gasoline		634	586	566	428	410
b. tobacco (M)		704	727	702	760	820
c. alcohol (M)		555	564	573	640	730
d. jewelry		37	33	41	49	60
e. heavy cars, car air conditioners, private planes, motorcycles, boat motors		24	41	38	34	32
f. air transport		69	76	74	105	160
g. other		10	10	10	11	11
3. Oil export charge	SET	828	488	317	599	855
4. Special levy to provide international oil prices to Syncrude	SET	-	-	20	231	825
5. Exemption from special excise tax on gasoline for commercial users	SET	175	180	185	155	150

TABLE 1 (Continued)

Functional Category and Item	Tax	1976	1977	1978	1979	1980
			($ millions)			
C. Resource Sector						
1. Revenue impact of 25 per cent resource allowance						
a. mining	CIT	150	135	180	n.a.	n.a.
b. petroleum, coal and gas	CIT	490	625	725	n.a.	n.a.
2. Revenue impact of non-deductibility of provincial royalties						
a. Mining	CIT	35	30	30	n.a.	n.a.
b. Petroleum, coal and gas	CIT	700	850	1,000	n.a.	n.a.
3. Logging tax credit	CIT	11.3	13.6	27.1	n.a.	n.a.
D. Other						
1. Childcare expense deduction	PIT	35	40	45	50	55
2. Employment expense deduction	PIT	250	360	375	595	625
3. $5,000 limit for deduction of hobby farm losses	PIT	50	38	43	n.a.	n.a.
	CIT	s	s	s	s	s
4. Non-taxation of expense allowances of MPs, MPPs, Royal Commissioners, and certain municipal officials	PIT	s	s	s	s	s
5. $2,000 limit for deduction of capital losses against other income	PIT	20	24	23	n.a.	n.a.
6. Goodwill and expensing of advertising costs	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
7. Non-deductibility of advertising expenses in foreign media	CIT	n.a.	n.a.	n.a.	n.a.	n.a.
8. Non-deductibility of salary paid to spouse by unincorporated business (M)	PIT	140	130	145	150	-