

For profits earned in the period July 1, 1971, to December 31, 1972, there is a temporary tax reduction equal to 7 per cent of the tax otherwise payable before the 10 percentage points provincial abatement.

A "small-business deduction" reduces the rate of tax on certain business income to 25 per cent. This concession is restricted to Canadian corporations that are not controlled by a non-resident corporation or by a Canadian public corporation. It applies only to income from an active business carried on in Canada and not to investment income. The maximum amount of taxable income on which the deduction may be calculated is \$50,000 in any one year. A corporation is entitled to this deduction only until it has accumulated \$400,000 of taxable income commencing with taxation years starting after 1971. The payment of taxable dividends reduces the accumulation of taxable income for purposes of this limitation. The rate of 25 per cent referred to will not be affected by the gradual reduction in the general federal rate of corporation income tax between 1972 and 1976, but this 25 percent rate is reduced by the 10 percentage points provincial abatement.

A corporation that qualifies as an "investment corporation" pays tax at a rate of only 25 per cent. This rate is also reduced by the provincial abatement.

The investment income (other than dividends) of a private corporation is subject to the general rate of tax (i.e., 50 per cent in 1972 becoming 46 per cent in 1976 less the provincial abatement) but an amount not exceeding 25 per cent of this income is refunded when dividends are paid to shareholders.

Dividends received by a private corporation from a Canadian corporation controlled by it are deductible in computing its taxable income (except where paid out of designated surplus or under conditions that entitle the paying corporation to a refund). Dividends received by a private corporation from portfolio investments are subject to a special 33-1/3 percent tax, but this is refunded when dividends are paid to shareholders.

A corporation may elect to pay a special 15 percent tax on its 1971 undistributed income on hand. Dividends received from this tax-paid undistributed income are not included in the income of the receiving shareholder but the amount of the dividend will reduce the adjusted cost base of the shares for capital-gains tax purposes. Dividends paid from the untaxed half of a corporation's capital gains are also excluded from the income of the recipient shareholders but with no similar reduction in the adjusted cost base of the shares for capital gains tax purposes.

Special rules are provided for the taxation of special-purpose companies such as mutual fund corporations, life insurance companies, non-resident-owned investment companies and co-operatives.

In addition to the reduction equal to 10 per cent of taxable income earned in a province, a corporation may reduce its tax by a credit for taxes paid to foreign governments on foreign-source income. This credit may not exceed the Canadian tax related to such income. A corporation may also deduct from its tax an amount equal to 2/3 of a provincial tax on income from logging operations, not exceeding 6-2/3 per cent of its income from logging operations in the province.