

pected to increase by slightly more than 2 per cent this year and next year.

In addition to modification of indexation for old age security payments and family allowances, the government will also attempt to limit the rate of growth of transfers to provinces to yield annual savings of \$2 billion by the end of the decade. Meetings with provincial finance ministers will be held to discuss the full range of issues relating to federal-provincial fiscal arrangements.

Capital gains tax exemption

To encourage more Canadians to invest in small and large businesses, the budget proposes a lifetime capital gains tax exemption of \$500 000 for every Canadian. All capital property will qualify and the exemption limit will be phased in over six years beginning this year with a \$20 000 exemption for total capital gains.

Other measures are also geared to encourage greater investment in smaller business. Provisions will be made to allow pension funds and registered retirement savings plans (RRSPs) to invest in smaller Canadian corporations. In addition, a tax credit to individuals who invest in the Fonds de solidarité du Québec or in any similar labour-sponsored venture capital fund that receives provincial tax assistance, is proposed.

To promote investment in research and development (R & D) and to ensure that Canada keeps pace with technological change, the budget proposes to assist small companies by refunding all of the tax credit which they earn on their first \$2 million of qualifying R & D each year. In addition, changes will be made to the definition of qualifying R & D expenditures.

The finance minister noted that the western energy accord (See *Canada Weekly*, May 15, 1985) has already led to strong signs of revival in the petroleum industry and that a notice of ways and means motion was being tabled to give effect to the fiscal measures announced in the agreement.

Labour market initiatives

There will be increased funding for training and direct development programs, aimed at greater private sector and local participation. In addition to \$900 million allocated to these programs this year \$900 million will be allocated in 1986-87.

A major review of the unemployment insurance program will be undertaken. Until the review has been completed in March 1986, the entrance requirements and rates will be maintained at their current level.

A discussion paper, *The Corporate Income Tax System: A Direction for Change*, designed to make the corporate income tax

system fairer and more effective in supporting economic growth, as well as making taxation of corporate groups more neutral, was tabled with the budget. Among its proposals, the paper suggests a significant reduction in the basic federal tax rate for small businesses, from 15 to 11 per cent. This reduction would be balanced with reductions in tax incentives.

Measures were proposed to improve government effectiveness. They include: selling or dissolving up to 13 corporations; reducing the size of the public service by 15 000 over the next six years; and program changes involving the reduction of transportation subsidies, industrial and agricultural subsidies and expenditures on nuclear power systems research, as well as the closing of heavy water plants in Cape Breton.

The projected increase for official development assistance will be reduced by \$50 million next year. A new trade and development agency will be set up to assist the Canadian business community in actively pursuing Third World projects of a developmental nature.

Social and cultural programs

Changes to child tax credits and child tax exemptions will be made to ensure that Canadian families with the greatest need receive the greatest benefit. The budget also proposes the implementation of a major reform to Canada's private pension system, changes in the federal pension benefits standard act, and the system of tax assistance for contribution to promote pension plans. Other changes to assist artists, charities, and the disabled are to be introduced.

Measures designed to improve tax fairness include: a minimum income tax imposed on high-income Canadians, effective for the 1986 taxation year; amendments which prevent taxpayers from avoiding tax by splitting income through the use of loans to spouses and children; elimination of tax shelters involving property such as yachts, recreational vehicles and hotels; and measures to achieve fairer tax administration.

National debt control

Both expenditure reductions and revenue increases were introduced to help control the national debt. Expenditure reductions include limiting the indexation of family allowances and old age security payments to annual increases in the consumer price index which exceed 3 per cent. Revenue increases involve important changes in personal income tax, the removal of the federal sales tax exemption on certain products, increases in the federal sales tax, and increased excise levies on cigarettes, alcoholic beverages and gasoline and other transportation fuels.

Irish prime minister visits

Prime Minister Brian Mulroney met with Ireland's Prime Minister Garret FitzGerald during his working visit to Ottawa May 7-8. It was the first official visit to Canada by an Irish prime minister in 37 years.



Brian Mulroney (right) with Garret FitzGerald during his official visit to Ottawa in May.

During their meetings, the leaders renewed cultural and economic ties between the two countries. They discussed the Bonn Economic Summit with particular reference to the emerging danger of protectionism as it affects both countries and world trade in general, industrial development policy in Canada and Ireland, budgetary arrangements and strategies, the exchange rate policies in both countries, East-West relations and world trade.

The leaders also discussed the situation in Northern Ireland, and Mr. Mulroney said that "the government of Canada would be prepared to contribute to the maximum of our abilities and capacities to any initiative which is founded on tolerance and greater respect".

At a meeting with Secretary of State for External Affairs Joe Clark, issues relating to Central America and the Middle East were reviewed. Both Mr. Clark and Dr. FitzGerald reflected their country's concern for peace and the strengthening of the United Nations.

In Halifax, Nova Scotia, on May 13, Prime Minister FitzGerald received an honorary doctorate of laws from St. Mary's University. The university was founded by Irish immigrants in 1802.

Prior to his departure from Canada, Prime Minister FitzGerald invited Mr. Mulroney and Mr. Clark to Ireland for further talks.