

The next general heading to which I wish to refer is "Exploration and Drilling Expenses". At present provision is made for the deduction from tax of expenses incurred in searching for minerals in Canada or exploring or drilling for oil or gas. Heretofore this has been limited to oil, mining and mineral processing corporations, but the exempting provision is now extended to include corporations whose principal business is fabricating metals. In other words, heretofore if a company that was in the business of fabricating steel decided to do exploration in search of iron ore, it has not been entitled to deduct as an expense of doing business the expenses incurred in searching and exploring for ore. That situation is now being changed. Also, provision is made to permit mining, petroleum or natural gas companies to deduct pre-production expenses incurred by former subsidiaries. It is my understanding that for quite some time the petroleum and mineral segments of the economy have been seeking the relief accorded by these provisions.

I come now to an entirely new development in our income tax laws, the provision for tax exemption in respect to what is referred to as deferred profit-sharing plans. The word "deferred" refers to the fact that the tax on certain profit-sharing plans is to be deferred; in other words, it is not payable when the money is contributed to the plan but is payable at a later date, namely, when the rate presumably would be lower in respect to the individual recipient.

Section 26 of the bill dealing with deferred profit-sharing plans is entirely new legislation. The contents of this section were contained in a special bill introduced in the other place last year, but it was not then proceeded with.

At present we have various types of employee profit-sharing plans, for such plans have not become very popular because tax must be paid each year by the individual for whose benefit the contribution to the plan is made. Consequently, as I said before, the word "deferred", in the name of this new plan refers to the fact that the payment of tax on amounts paid by an employer to such profit-sharing plan is not taxed until payment out to the beneficiaries. That is, the payment of the tax is deferred. If the individual's share in a profit-sharing plan is paid out in a lump sum after retirement or after death, the legislation provides that such payment gets special tax treatment. The improvement in the legislation results from the fact that, generally speaking, amounts put to the credit of an employee during his earning years attract tax at a high rate because the individual is generally in a higher tax bracket

than he would be in after retirement; consequently, the benefit of being able to pay tax on such funds when they are received after retirement, either by lump-sum payment or in the form of an annuity, should be quite apparent, as in most cases the rate would be considerably lower. Honourable senators will observe that section 26 is quite lengthy, extending from page 21 to page 27 of the bill. I am afraid those are the pages I had in mind as including references to personal corporations.

Hon. Mr. Connolly (Ottawa West): It is section 26 anyway?

Hon. Mr. Thorvaldson: Yes. I was confusing pages with sections.

I might say that there are various amending provisions throughout the bill itself which are consequential upon this new legislation.

I come now to the legislation which is required in respect of provincial tax sharing arrangements.

As I mentioned previously, the amendments to the act in regard to this subject-matter result from the proposals made at the federal-provincial tax sharing conference held earlier this year.

Provision is made for the reduction of individual taxes and corporation tax rates for the years 1962 to 1966 in order to enable the provinces to assume the tax fields vacated by the federal authority.

The term of the arrangement is for five years, namely, the years 1962 to 1966.

It should also be noted that the reduction will apply only to tax on income earned in the Canadian provinces. For individuals the reductions will be as follows:

16 per cent of the tax otherwise payable for the 1962 taxation year.

17 per cent of the tax otherwise payable for the 1963 taxation year.

18 per cent of the tax otherwise payable for the 1964 taxation year.

19 per cent of the tax otherwise payable for the 1965 taxation year.

20 per cent of the tax otherwise payable for the 1966 taxation year.

For corporations the tax rate is to be reduced by nine percentage points in respect of income earned after December 31, 1961 and before January 1, 1967. Consequently, corporate tax rates on income earned after December 31, 1961 will be 12 per cent on the first \$35,000 of taxable income, instead of 21 per cent and 41 per cent on the excess.

I said a moment ago that reductions would apply only to the tax on income earned in Canadian provinces. That simply means that there is no provision for reductions in respect of income earned outside of Canada or in Canadian territories, namely, the Yukon or