

The Budget—Hon. John N. Turner

Second, I am proposing that revenues derived by provincial governments in respect of production from a petroleum or mineral resource should no longer be deductible in computing the income of the operator of the resource. At the same time, in recognition of the special position of the provinces in relation to natural resources, I am proposing that, effective immediately, there be an extra abatement from federal income tax in respect of taxable production income derived in Canada. The extra abatement will be 15 points in the case of mineral profits and 10 points in the case of petroleum profits. For mineral profits, the combination of the new abatement, together with the standard provincial abatement of 10 points, will reduce the effective statutory federal rate from 50 to 25 per cent. In the case of petroleum, the result will be to reduce the federal rate to 30 per cent.

The question of the provincial abatement with respect to mining income requires some elaboration. In August, 1970, at a time when the basic corporate tax rate was 50 per cent, the then minister of finance announced that commencing in 1977 the federal government would abate 15 points of corporate tax in respect of mineral production income. At the same time he indicated that commencing in 1977, provincial mineral taxes and similar payments would not be deductible for corporate tax purposes. Provincial mining royalties were not mentioned because provinces traditionally relied at that time on mining taxes to derive revenues from the industry.

Subsequently, many important changes have occurred in provincial tax policies. In particular, provinces have begun to make use of royalties of many different kinds to increase their revenues. I am not opposing this. But I am saying these developments are making it almost impossible to arrive at a meaningful distinction between mining taxes and the varying types of royalties or arrangements which have similar effects in terms of what is or is not allowed as deductions for corporate income tax purposes.

Hence, I propose that with regard to the taxation of mineral resource profits, none of these payments to provinces be recognized as deductible in determining corporate tax. I point out, moreover, that this bears not only on the federal corporation tax but also on the provincial corporation tax for those provinces for whom we collect this tax.

In respect of petroleum, the additional provincial abatement is an entirely new feature.

It is also apparent that the petroleum and mineral resource industries in Canada have reached sufficient maturity that the existing tax incentives are more generous than is needed to encourage continuing development. Accordingly, I am also proposing to cut back immediately on some of the existing incentives. Henceforth, depletion can be claimed only if it is earned and only up to an annual maximum rate of 25 per cent of production income rather than 33½ per cent. Canadian exploration and development expenditures have in the past been deductible immediately. If incurred in the future, they will be amortized at a rate of 30 per cent calculated on the diminishing balance basis.

Earned depletion which can presently be accumulated at the rate of \$1 for every \$3 of eligible exploration and development expenditure will continue. With rising resource profits, and the discontinuance of automatic

depletion, this earning of depletion will be very effective incentive for encouraging exploration. Similarly, I propose to retain the immediate deductibility of the cost of capital assets invested in a new mine or a major expansion of a mine because of the incentive it provides to new development.

I believe these proposals accomplish the objectives we have set for ourselves. Given the circumstances of the day, they establish an improved and not unreasonable position for the federal government on behalf of all the people with respect to the taxation of this sector of the economy.

I estimate that these measures will increase the federal tax liability in 1974 of the mining industry by \$40 million, and that of the oil and gas sector by \$410 million. For the eight provinces with whom we have collection agreements, the comparable amounts are \$5 million in respect of mining and \$115 million in respect of oil and gas. Ontario and Quebec, of course, collect their own corporation tax, and therefore I have not attempted to estimate any revenue increase with regard to these two provinces.

[*Translation*]

Financial Institutions

Mr. Speaker, another major sector of the business community which has been very profitable in recent years is the financial area. This has been particularly true of the larger institutions. I have had the occasion to examine their position and I have reached several conclusions. First, the volume of business of financial institutions, and consequently their profit-ability, has increased substantially. Second, during the last decade the loss experience of these institutions generally has been less than 1 per cent and with regard to the larger institutions, the loss experience has been less than 4/10ths of 1 per cent.

In October of 1968, the then Minister of Finance changed the tax treatment of these institutions by reducing their tax-free reserves from 3 per cent to 1½ per cent of eligible assets. Tonight, I am proposing to reduce the level of tax-free reserves from 1½ per cent to 1 per cent of eligible assets for all financial institutions such as banks, trust companies, insurance companies and any others who are required to compute their reserves on this formula basis. This measure will be applicable for taxation years ending after tonight.

At the same time, I recognize that the loss experience of the smaller institutions is greater than that of the larger ones. Therefore, I am proposing that the present reserve of 1½ per cent be retained in respect of the first \$2 billion of eligible assets and that the 1-per-cent rate apply to the excess. This new regime will yield the federal government \$40 million in fiscal 1974-75. It will ensure that the large financial institutions bear their fair share of the tax burden, and yet avoid an adverse effect on the smaller institutions and any new institutions.

[*English*]

Other Corporate Measures

Mr. Speaker, I would now like to turn to corporate tax measures of a more general nature.

Corporate profits have risen sharply in the last year or two. In part, this has been a recovery from earlier depressed levels, but companies have benefitted from the strong economy and from inventory gains enjoyed during