

Also included in the exemptions are allowances up to \$300 received in any one year by an individual who acts as a voluntary fireman, also amounts deducted on account of legal expenses incurred in collecting wages and salaries.

**Hon. Mr. Pratt:** May I ask the honourable senator to which section he is now referring?

**Hon. Mr. Thorvaldson:** There are some 40-odd sections in the bill, and I do not have a reference to them. I think this latter matter appears in the bill at about section 3 or 4.

There is also an addition to the present exempting section concerning medical expenses. This is an important amendment which provides that the present maximum limit on the amount deductible in computing taxable income on account of medical expenses shall be repealed. In other words, there is now to be no limit to the amount of medical expenses actually incurred which can be claimed as a deduction from tax. By way of a brief explanation of this amendment I may say that there is basically a 3 per cent floor with respect to medical expenses. For example, if an individual has an income of \$10,000, the first \$300 of medical expenses are not deductible for tax purposes. Above that amount the taxpayer is now entitled to a deduction for himself and his wife of \$3,000, and up to \$750 for dependents. It is these limits which are now to be removed, so that the medical expenses incurred by a taxpayer for himself and his dependents above the 3 per cent floor will be deductible from tax.

Important amendments are introduced in regard to deductions in the field of scientific research. Commencing with the 1961 taxation year expenditure on scientific research may be fully deducted as incurred. Previously, capital expenditures on scientific research could only be deducted over a three-year period and total expenditures of both a capital and current nature could not exceed 5 per cent of the preceding year's taxable income. That has now been changed by the removal of these limitations. Furthermore, any amounts contributed in the year 1961, or subsequent taxation years, to a non-profit corporation constituted exclusively for promoting or carrying on scientific research in Canada, which expends all amounts received by it on research, shall qualify for deduction as current expenses on scientific research, and the recipient company itself shall be exempt from tax.

I turn now to the matter of certain lump-sum payments made to non-residents. I should like to explain the present position in regard to the lump-sum payments involved in the classifications of payments to which I shall

refer in a moment. At present quite an extraordinary situation exists in this regard, and indeed, to my mind, it involves a very broad loophole for the avoidance of tax. For example, a former Canadian resident living in Florida could receive certain lump-sum payments emanating from this country which would be entirely free of tax in his hands. Consequently, it is now proposed to amend the Income Tax Act by providing that certain lump-sum payments made by residents of Canada to certain non-residents be income for the year from duties or services performed in Canada by the non-resident.

Of course, there is a limitation in regard to the particular type of payment involved in this category. The payments that will be taxed are the following: (a) a lump sum payment out of or pursuant to a superannuation or pension fund or plan; (b) a payment upon retirement of an employee in recognition of long service; (c) a payment to an employee or former employee in respect of loss of office or employment, and (d) a payment under a profit-sharing plan, to the extent that it would have been taxable had the payee been resident in Canada.

Payments in these categories made to residents of Canada have been taxable for many years in the usual way, whereas if the recipient happened to take up residence in a foreign country they were not taxable. It is proposed that these provisions will apply to all non-residents who were either resident or employed in Canada for a period of not less than 36 months of the five years preceding the year of payment. However, the legislation will not apply to payments which can be established to be one of a series of payments to be continued at regular intervals during the life of the recipient. The effect of the proposed legislation is to tax certain lump-sum payments made to persons who were formerly taxable in Canada but who would otherwise escape Canadian tax by reason of becoming a non-resident. That is provided for in section 11 of the bill.

The bill also amends provisions in regard to residents, both individuals and corporations. Previously, especially in regard to corporations, there were many doubts concerning corporate residence which heretofore had been governed by the place where central management and control of the corporation were exercised. However, the new residence rules apply only where a corporation is carrying on business in Canada. Consequently, this change should not affect the non-residence status of Canadian corporations whose affairs have moved abroad, for the purpose of withdrawing surplus or winding up.