

develop in Canada and to impose a greater tax liability on those who do not.

Under the present system, resource profits are subject to a basic corporate tax rate of 50 per cent. This rate is reduced by the standard provincial abatement of 10 points of tax and by a special resource tax abatement of 15 points, resulting in a net federal rate of 25 per cent on resource production profits. Under the system which I am now proposing, the extra 15-point abatement of federal taxes would be withdrawn, and the basic corporate tax rate applicable to resource production profits would be reduced to 46 per cent, the same as that applying to most other corporate activity. After deducting the standard provincial abatement, this would result in a net federal rate of 36 per cent on resource production profits in 1976.

At the same time, I am introducing a new resource allowance, which would be an extra deduction from income equal to 25 per cent of production income from petroleum, gas or mineral resources. For this purpose, production income would be calculated after operating expenses and capital cost allowances, but before interest, exploration and development, and earned depletion. This new allowance will be available to both corporate and individual taxpayers engaged in petroleum and mining operations.

All of these new proposals will become effective on January 1, 1976.

[English]

Let me explain how these modifications will meet my two main objectives. First, the new resource allowance is a practical way to recognize that provinces, in one way or another, impose taxes or royalties and to take that fact into account within reasonable limits in determining taxable income.

Second, the new system is even more favourable than our present incentives to those who continue to develop our resources. This arises from the simple fact that the higher the tax rate, the more valuable is a dollar of deductible expenditures. Under the new proposal, exploration and development expenditures and the depletion they earn will be deductible against a net federal tax rate of 36 per cent rather than the present lower rate of 25 per cent. This will augment appreciably the incentives already contained in the present system such as earned depletion and the immediate write-off of exploration expenses.

This improvement in the resource tax system can be achieved within the continuing constraint that a fair share of resource revenues must be preserved for the benefit of all Canadians. There will be some modest cost to the federal treasury, which I estimate for the years 1976 to the end of the decade to be about \$40 million annually based on present forecasts. To the extent that these proposals have their intended effect and stimulate even more exploration and development in Canada than now envisaged, the cost to the federal treasury will be greater. But this additional loss of federal revenue would be well worth its cost if it brings in new reserves.

The impact of these proposals on provincial income tax revenues is more difficult to assess. Several producing provinces are already proposing to rebate to industry increases in federal and/or provincial corporate taxes resulting from the non-deductibility of provincial levies.

The Budget

Such arrangements will no doubt continue, although perhaps in modified form. Provinces with their own corporate tax systems, which now provide that royalties and/or mining taxes are not to be deductible, will no doubt wish to take these new federal proposals into account.

● (2130)

I believe that the measures I have introduced tonight represent a reasonable answer to the main arguments raised by both the provinces and industry and will be welcomed as such by all concerned. I have sought a better tax system, one which would meet provincial grievances and one which would provide more incentive to industry for exploration. At the same time, I have sought to preserve a fair share of the yield of these resources for the people of Canada. I hope that provinces will do their part to resolve whatever problems still remain.

The Fiscal Position

I now wish to inform the House as to our fiscal position and outlook. The financial requirements for the fiscal year just ended, excluding foreign exchange requirements, were about \$2.3 billion. This compares to the \$1 billion I had forecast in my November budget. Almost half of the increase of \$1.3 billion resulted from the fact that certain corporate tax instalments expected in 1974-75 were received only in 1975-76. Other factors included larger transfers to provinces under the revenue guarantee and equalization programs, and payments to the provinces under the tax collection agreements in excess of the amounts collected on their behalf.

I am tabling tonight a more detailed analysis of the financial requirements for 1974-75. Since the books are not yet closed, the figures are still preliminary. This is the first opportunity for presenting this information to the House. The normal publication of the preliminary financial statements in the *Canada Gazette* will follow later this summer.

I would like to turn to the fiscal outlook for 1975-76. Total financial requirements, excluding foreign exchange transactions, are forecast at \$5.3 billion compared with \$3 billion in my last budget.

This increase in our cash requirements reflects the fact that the economy will not grow as rapidly in this fiscal year as had been expected when we prepared the November budget. The revised forecast has resulted in a downward revision in our earlier estimate of tax collections of approximately \$1.7 billion. It has also resulted in an upward revision in the forecast deficit of the unemployment insurance account of \$800 million. The receipts from the oil export charge are currently estimated to be some \$400 million lower than previously anticipated. This decrease in receipts is due both to a reduction in the export charge and in the volume of exports. Some offset to the above changes has resulted from the delayed receipts of \$600 million of corporate tax instalments referred to earlier.

The revenue measures I have announced tonight are expected on balance to increase our receipts by \$200 million. The forecast of budgetary expenditures and loans, investments and advances has been increased by a like amount. This is more than accounted for by the direct employment and housing measures I have announced tonight. The very small rise in our outlays has been made