

engineering and marketing experts, and far less on the advice of tax specialists.

And it will ensure that profitable corporations carry a bigger share of the total tax burden. Federal corporate income tax revenues will increase by about \$5 billion over the next five years.

To maintain a competitive tax system, corporate tax rates will be reduced, effective July 1, 1988. The general federal rate will fall to 28 per cent. The rate for small business will fall to 12 per cent and the manufacturing rate will be reduced by 1991 to 23 per cent.

Income tax revenues from corporations will increase because these lower rates will apply to a broader tax base with fewer special incentives. Capital cost allowances will be reduced to bring them more in line with actual rates of depreciation. The rate of tax on capital gains will be increased. Deductions for meals and entertainment expenses will be limited. Small manufacturers will be taxed at the same rate as other small businesses.

Many profitable financial institutions and real estate companies are paying little or no tax because of existing tax provisions. New rules will be introduced to ensure that they pay their fair share of tax. I am also announcing changes, effective immediately, to reduce the tax advantage available to non-taxpaying companies that issue preferred shares.

More balanced development across all regions will continue to be strongly supported through the tax system. The reform proposals retain the investment tax credits in the Atlantic and Gaspé regions, Cape Breton, and special investment tax credit regions across Canada. The rates of credit will be reduced in line with lower tax rates, but the relative incentive effect will be maintained.

The mining industry is important to regional economic growth and to isolated communities across Canada. Earned depletion, which provides a tax write-off in excess of actual costs, will be phased out by mid-1989. Flow-through shares and the ability to write off all investment against the income from a new mine will be retained.

The average tax rate of the mining sector will remain one of the lowest. And for a new investment in mining, the tax rate will be lower than in any other sector.

The reform proposals also recognize the strategic position of Canada's oil and gas industry. The industry will benefit over all from tax reform. The lower tax rate will more than offset the slightly broader tax base. The industry will continue to have access to flow-through shares.

In current world oil markets, many major projects with long lead times face very high risks. Accordingly, as in the past, the government will consider what adjustments in non-tax assistance would be appropriate to encourage major oil and gas projects which provide important regional or national benefits and which are fundamentally economic.

Statements by Ministers

The agriculture, logging and fishing sectors are important sources of employment and income for many regions of Canada. After tax reform, they will have the lowest average tax rate of any sector.

[*Translation*]

The changing composition of our economy and the importance of adjusting to technological change make it essential that our reform proposals look to the future as we prepare for the 21st century. The reformed system will strongly support two key priority areas for this government: research and development and labour-intensive economic sectors.

Firms engaged in R&D in Canada will continue to benefit from one of the most favourable tax regimes for R&D in the industrialized world. The current tax incentives for R&D costs will not be changed, with the exception of buildings claimed for R&D.

Canada's wholesale and retail trade and service businesses are leaders in employment growth, yet they are the most heavily taxed of any corporate sector. By lowering their taxes, tax reform will encourage new investment in these sectors in all parts of Canada.

The further reduction of the low tax rate for manufacturing will maintain its competitive position.

[*English*]

In recent years, tax planning in Canada has become more sophisticated and aggressive. Canadians quite rightfully resent it when they find that others avoid paying tax by bending the rules of the tax system. We must be assured that the tax burden will be fairly shared. The reforms I have outlined will make our income tax system substantially fairer than it now is. Lower rates and fewer preferences will reduce the incentive and opportunity for tax avoidance.

● (2030)

But further action is required. Over the past two years, I have dealt with an increasing number of complicated transactions designed primarily to avoid tax. I am proposing legislative changes that will provide a stronger basis for reassessing artificial tax avoidance transactions. Information reporting requirements for investment income and tax shelters will be strengthened to help identify avoidance and evasion. Penalties will be increased for chronic offenders.

In reform of the income tax, I have set out to make the system fairer and more efficient while retaining its fundamentally sound principles. No such reform is possible within the current federal sales tax. It is beyond repair and will be replaced by a new system in the second stage of tax reform.

[*Translation*]

SALES TAX REFORM

A fair and effective sales tax is an essential part of the overall balance of Canada's tax system.