years may be carried back three years and forward seven years. However, only a two year carryback is available in respect of non-capital losses for the 1983 taxation year for corporations that are not eligible for the small business deduction (see section entitled "Taxation Incentives" for information on which corporations are eligible for this deduction). Capital losses, on the other hand, may be carried back one year and forward indefinitely, but may only be used to offset capital gains in those years. The carryback period for capital losses will be extended to two years for capital losses suffered in the 1984 taxation year and three years for capital losses suffered thereafter. Where control of a corporation changes, the corporation's capital losses from any taxation year preceding the change of control may not be carried forward; nor can the corporation's non-capital losses unless the corporation carries on the loss business throughout the year and then only to the extent of the corporation's income from the loss business or a similar business.

Corporate Reorganizations
As a rule, transactions between taxpayers who do not deal at arm's length must take place at fair market value. Several exceptions are provided, however, to facilitate various corporate reorganizations including transfers of assets to corporations under qualifying circumstances and certain capital reorganizations, mergers and liquidations. These rules ensure that assets are considered to be transferred at their cost for tax purposes thereby postponing the tax that would be payable if the assets were considered to be transferred at their fair market value.

Taxation Incentives

The various levels of government in Canada have introduced a number of special tax incentives designed to encourage investment in certain sectors of the economy and for selected activities.

Investment Tax Credit
An investment tax credit is available at rates ranging from 7 to 50 per cent to encourage investment in capital assets and at rates ranging from 10 to 25 per cent to encourage current and capital expenditures on scientific research. The amount of the credit depends on the nature of the expenditure and the region in which the expenditure is made. Capital assets that are eligible for investment tax credits include new buildings, machinery and equipment used primarily in Canada for manufacturing and processing, mining, logging, farming or fishing activities, and equipment for transportation.

Recent amendments proposed to the Income Tax Act would extend the carryback and carryforward period for unclaimed investment tax credits and enable a portion of the investment tax credits earned on investments made after April 19, 1983 and before May 1986 to be refunded directly in cash to taxpayers who could not otherwise fully use their credits to reduce their federal tax. In addition, where the corporation wishes to pass the benefit of these credits on to its investors all or any portion of such credits may be claimed instead by purchasers of new common shares issued by the corporation after June 30, 1983 and before 1987.

Scientific Research
Expenditures on scientific research of a current and capital nature may be written off in the year in which they are incurred or capitalized and deducted either in whole or in part in any future year. A corporation may deduct an additional allowance of 50 per cent of its Canadian research expenditures to the extent they exceed the average of such expenditures over the previous three years.

Recent amendments proposed to the Income Tax Act would abolish the additional allowance of 50 per cent and in its place increase by 10 per cent the amount of the investment tax credit that the taxpayer is entitled to by virtue of the expenditures. In addition, it is proposed that corporate taxpayers be able to forego any investment tax credits and other deductions that they would otherwise be entitled to in respect of expenditures on scientific research in order that they may be able to pass on tax credits to investors equal to 50 per cent of the amount of their expenditures.

Foreign Tax Credit
A corporation resident in Canada is normally entitled to a credit against Canadian income tax for taxes paid to foreign governments. The credit is limited to the amount of Canadian tax on the foreign business income before the credit. A five year carryforward is provided for unused foreign tax credits.

Small Business Deduction
A Canadian-controlled private corporation may be eligible for the small business deduction, the effect of which is to reduce the federal corporate tax rate on eligible business income. Depending on the nature of the business activity carried on by a corporation, the small business deduction will reduce the federal corporate tax rate by 21 per cent or by 12 2/3 per cent. In order to restrict the benefit of the small business deduction to small businesses, the amount of business income that is eligible for the deduction is limited. Accordingly, in any given year a Canadian-controlled private corporation, together with companies with which it is associated, may claim the small business deduction on only