First, the cost of machinery, equipment and other facilities acquired after tonight for use in an enhanced or "tertiary" recovery system will be eligible to earn a depletion allowance of $1 for each $2 of expenditure as compared to the normal depletion allowance earning rate of $1 for $3. An enhanced recovery system is one that uses new technology to recover additional marketable oil from either conventional or heavy oil fields. Depletion is a special allowance, deductible from taxable income, based on the eligible costs of recovering minerals and petroleum.

Second, the amount of the depletion allowance that may be claimed each year will be increased for depletion earned on certain investments in non-conventional oil. At present the maximum deduction for depletion is limited to 25 per cent of resource profits. This limit will be increased, effective this year, for depletion earned on certain eligible expenditures to 50 per cent of total taxable income — that is, resource profits and any other profits of the corporation. For this purpose eligible expenditures will include investments in machinery and equipment forming part of an enhanced recovery project and depreciable property in class 28 that is acquired for a bituminous sands mining project.

For tax purposes, plants established to upgrade heavy oil, other than those established in connection with a bituminous sands mining project, will be treated as manufacturing and processing facilities. This will place them on the same tax footing as oil refineries and other manufacturers. These plants process the heavy, thick types of oil that cannot be sold now in volume, and turn them into a marketable form.

Rail Transportation

Major investments are needed in the railway transportation system to improve efficiency and restrain cost increases. More modern equipment is required in many areas of railway operations including signalling, track and equipment maintenance, motive power and rolling stock.

An additional straight line capital cost allowance of 6 per cent will be provided on all railway system assets (other than certain non-rail automotive assets) acquired after April 10, 1978 and before 1983. This additional allowance will be available in the year of investment and in each of the four subsequent years.

For example, signalling equipment now qualifies for an allowance at a rate of 4 per cent a year on the reducing balance. The special depreciation will permit a further deduction of 6 per cent of the original cost of the equipment in the year in which it is purchased and the following four years.

New investment stimulated by this measure will benefit suppliers of railway equipment, including Canadian producers of rail locomotives and cars, strengthening output and employment in this important manufacturing sector.