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.

Certified Canadian films

To assist the financing and development of the Canadian film industry, the law provides a special write-off for investment in certain Canadian films or video tapes certified by the Secretary of State. The budget proposes a number of changes to this incentive designed both to improve the quality of Canadian film production and to eliminate abuses.

Under the present capital-cost allowance system, the incentive is technically available for a taxation year only if the film or tape is brought into existence by the end of the year. This has tended to rush the completion of the photography, at a sacrifice of quality in many cases. To allow for a more orderly pace of production, a change will be made to permit the deduction to be taken under certain circumstances even though principal photography was not commenced until after the end of the year. This special rule, applicable to the 1978 and subsequent taxation years, will allow the incentive claim provided principal photography of the film is completed within 60 days after the end of the year.

Registered retirement savings plans

The Income Tax Act now requires a taxpayer, prior to reaching age 71, to use the funds accumulated in a registered retirement savings plan (RRSP) to purchase a life annuity from an insurance company. The annuity benefits are then taxable as they are received. The only alternative now available is to withdraw the full amount of the RRSP and become liable to pay income tax on it in the same year.

It has been decided to add two alternatives for providing retirement income from RRSP funds:

(1) A fixed-term annuity may be purchased to provide benefits to age 90.

(2) The savings may be transferred into a new kind of investment vehicle – a registered retirement income fund (RRIF).

Financial and other institutions that are now eligible to issue RRSPs will be permitted to offer the new options. At present, these are mainly life insurance and trust companies. Under the second, or RRIF, option, a specific fraction of the total assets in the fund – capital plus accumulated earnings – would be withdrawn each year by the holder to provide annual income to age 90. The fraction will be related to the age of the taxpayer in the year and will simply be equal to one divided by the number of years remaining to age 90.

Customs tariff reductions

Temporary tariff reductions on a wide range of goods, initially introduced as an anti-inflationary measure in the 1973 budget and scheduled to expire June 30, 1978, are being extended to June 30, 1979. Exceptions are canned and frozen asparagus and frozen Brussels sprouts for which the Tariff Board has recommended increased protection, glass tableware which a Canadian manufacturer intends producing in increased quantities if the pre-1973 rate is restored, and surface-active agents or synthetic detergents which are now being imported in such increased quantitities as to threaten continued expansion of production in Canada. The temporary rate of 10 per cent on certain canned meats will also expire at the end of June; it will be replaced by a 15 percent rate, which is more in line with the rates on other meat products and the needs of the industry but still substantially lower than the pre-1973 rates.

The temporary duty-free provisions covering aircraft and aircraft engines of types or sizes not made in Canada initially established in 1952 and scheduled to expire on June 30, 1978, are to be continued for another year. Free entry is also being proposed for markers used in the aerial spraying or dusting of crops and for catgut used mainly for stringing sports racquets. An existing free-entry provision for fatty alcohols for synthetic detergents is being extended to cover fatty alcohols used to make all kinds of surface-active agents.

A reduction from 20 per cent to 15 per cent is proposed for certain parts for electric light fixtures to help Canadian manufacturers compete with imports.

Customs tariff increases

It is proposed to withdraw the benefits of the British preferential tariff from certain goods imported into Canada from the United Kingdom and Ireland. These goods include confectionery, cranes for mounting on trucks, certain diesel engines, certain apparatus used in community antenna television transmission lines, and knitted garments. The main reason for this action is to assist Canadian manufacturers who are operating at below capacity or who have lost significant business to imports from the United Kingdom and Ireland. These imports will now be dutiable at most-favoured-nation rates of duty. Since Britain and Ireland ended Canada's preferential access by joining the European Economic Community, Canada no longer has an obligation to extend preferential tariff treatment to British and Irish goods. Many of the remaining margins of preference will disappear as a result of tariff reductions made in the multilateral trade negotiations.

An amendment is being introduced to exclude tires for non-agricultural tractors from duty-free entry. This change is to assist Canadian manufacturers of industrial tractor tires and to correct an anamaly whereby tires used on the tractor portion of some equipment are free of duty while the same tires used on the non-tractor portion are subject to duty.

An amendment is also being proposed to impose a tariff on two basic chemicals used in the manufacture of pesticides. This action will result in substantial investments being made in expanded production of these chemicals and will help ensure a reliable Canadian source of supply. Formulated pesticides used in agricultural and other applications, now free of duty, will continue to be so.

Family farms

Changes are proposed to broaden the special rules that permit the tax to be deferred on a transfer of farm property by a farmer to his children. This is generally referred to as a tax-free roll-over and now applies only to the transfer of farmland and depreciable farm property owned by a farmer. It will be made to apply to an incorporated family farm effective immediately.

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