advantage of issuing such shares. Small- and medium-sized companies in the mining and petroleum sectors would be most negatively affected.

6.31 Evidence we have received suggests that the viability of flow-through share financing can be preserved by limiting the erosion in the adjusted cost base of flow-through shares. Under existing provisions, the cost base is reduced by the amount of tax deduction claimed by the investor (the purchaser of the shares). This implies that at disposition of the shares, all of the proceeds of disposition will be a capital gain. Given the reform proposals already noted, the tax liability so generated would normally make flow-through investments uneconomical.

6.32 11. **We recommend that the cost base of flow-through shares be reduced only by the fair market value of the shares at the time they are acquired.** This means that the cost base of the shares for purposes of calculating capital gains will be the amount of the premium paid for those shares, rather than zero, as is the case at present.

Non-Financial Business Taxation

6.33 It is quite apparent that one of the fundamentals of the entire tax reform exercise is to shift a portion of the tax burden from individuals to business. While we would note that in the final analysis all taxes are borne by individuals either directly or indirectly, this Committee does not argue with the principle that it is appropriate that business bear a larger overall share of the national tax burden, nor that the share borne by business be equally distributed among the various sectors of the business community. At the same time, a healthy economy requires that businesses not be subject to exorbitant taxes to the point where they cannot compete with those in other countries or where it might make good business sense to transfer operations to a foreign country.

6.34 Beyond these general observations, there are a number of areas where the Committee believes immediate modifications should be made to the rules proposed in the White Paper.

6.35 Existing tax provisions allow firms engaged in Research and Development (R&D) to claim a credit against taxes payable. The credit ranges from 20 percent to 35 percent of R&D investments, depending on location and size of firm. As a measure intended to help ensure that profitable corporations pay tax, the White