New tax laws for small business

Finance Minister Jean Chrétien, and Minister of State for Small Business, Tony Abbott, recently announced that legislation would be introduced to permit the tax-free transfer of small business holdings from a parent to a child or grandchild.

The new tax provisions are part of a package of measures designed to assist small business.

The changes allow a deferral of up to $200,000 in capital gains when shares of an incorporated small business are transferred between generations of a family. The $200,000 is a lifetime maximum, applying whether the shares are transferred during the taxpayer's lifetime or at death.

The measure, an amendment to the Income Tax Act, is not an exemption from capital gains tax. Gains will be taxed in the hands of the children or grandchildren on any subsequent sale of the shares unless the subsequent sale qualifies for "roll-over" treatment.

The deferral applies to shares of Canadian-controlled private corporations which are engaged in active business operations. Qualifying small businesses will be those whose property consists substantially of assets used in a manufacturing, processing, mining, logging, farming, fishing, construction, wholesaling, retailing or other business that may be prescribed; or shares and debts of another small business corporation.

The deferral will not apply to a service business, such as a firm rendering personal, administrative or professional services. Nor will it apply to a business whose income is "passive", for example, consisting of real estate rentals or income from investment.

Under existing law, the capital gains tax arising on the death of an individual may be paid in equal instalments over six years. The amendments extend this period to ten years.

Further allowances

The ministers also announced an amendment to the Income Tax Act which would allow small businessmen to deduct for tax purposes capital losses on shares or debts of Canadian-controlled private corporations against income from any source. The change will apply to losses incurred after 1977.

If the loss exceeds income in the year it occurs, the balance may be carried back against income of the previous year or forward against income for the next five years, in the same way as business losses are treated under the present act.

The new rules will apply to both corporations and individuals.

At present, a corporation may deduct allowable capital losses only from taxable capital gains. Losses that are not deductible may be carried back one year and forward indefinitely but may offset only taxable capital gains in the carry-over period. The same rules apply to individuals, except that $2,000 of allowable losses may be offset against any other income.

The new provision will create a category known as "allowable business investment loss", which will be incorporated into the current definition of a "non-capital loss".

Hydro equipment to Brazil

Export Development Corporation (EDC) and the Bank of Montreal have signed a $5,610,000-loan agreement to support the $6,600,000-sale of Canadian goods and services to Centrais Eletricas do Sul do Brasil S.A. Eletrosul, Brazil.

The sale, by an affiliate of Dominion Engineering Works Ltd. of Montreal, involves the design, manufacture, testing and installation of hydraulic turbines and related governors for use in the Salto Santiago hydroelectric project on the Iquacu River in Southern Brazil.

The transaction should support 150 Canadian jobs at Dominion Engineering and elsewhere in Ontario and Quebec.

Preliminary trade figures

Canadian exports, seasonally adjusted on a balance-of-payments basis, rose for the third consecutive month to reach a record level of $4,766 million in April, up 10.5 percent over the revised March figure. The relative increase in imports was almost three times as great at $4,587 million, following about a 10 percent fall in March. Contrasting sharply from the level of March, the merchandise trade surplus of $179 million for April was also well below the average for recent months.

At $13,306 million, seasonally-adjusted exports for the three months ending in April stood 15.5 percent above the November-January total. With imports rising 14 per cent to $12,084 million, the trade surplus expanded 33 per cent from $917 million to $1,222 million in the months of February-April.

Exports

Seasonally-adjusted exports to the United States gained 15.5 per cent to a record level of $3,314 million in April, following a decline of about 2 per cent in March. The increase in the three months ending in April was 9 per cent to $9,095 million.

The value of shipments to overseas countries has increased for three successive months, including a rise of 3 per cent to $1,403 million in April. Exports increased to Britain and Japan, but declined to other destinations. Shipments to overseas markets jumped by a third to $4,088 million in the months of February-April, with the European Economic Community and Japan accounting for some 41 per cent of the gain.

Over the year, exports of domestic produce (unadjusted for seasonal variations) advanced 16.5 per cent from $13,610 million in the first four months of 1977 to $15,887 million in 1978. This increase was distributed over a number of commodity groups, led by forestry products, which rose some $500 million. Exports of non-ferrous metals and automotive goods were up about $355 million and $340 million, respectively. Shipments of chemicals and steel together increased $265 million, and deliveries of natural gas to the U.S. rose $100 million. Exports of wheat, crude oil and passenger cars declined more moderately.

The predominance of the U.S. as a market for Canadian exports widened from 68.8 per cent in the first four months of 1976 to 72.4 per cent in 1978. The shares for Japan and other American countries in the four months of 1978, while slightly higher than in the same period of 1977, were lower than in the January-April period of 1976.

Imports

After receding by 7.5 per cent in March, seasonally-adjusted imports from the U.S. resurged vigorously by 30.5 per cent to $3,269 million in April. The relative quarterly rise was about half as great, rising 14.5 per cent to $8,471 million in the three months ending in April.

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