

- Federal tax on mining profits to be reduced to 25 per cent from 40 per cent in 1977 to allow for provincial mining taxes.

BUSINESS AND PROPERTY INCOME

- Interest paid by corporations on money borrowed to buy shares in other corporations made deductible.
- Reasonable entertainment and convention expenses continue to be deductible, with geographical limitation on conventions.
- Club fees, costs of yachts, camps, lodges not deductible.
- Taxpayers in the professions will bring amounts into income as fees are billed.

INTERNATIONAL INCOME

- Tax treaty expansion to seek competitive tax treatment for Canadians investing abroad.
- Withholding tax on investment income paid to non-residents remains at 15 per cent until the end of 1975, then increased to 25 per cent in non-treaty countries. Pensions subject to withholding tax after January 1, 1972 but all Old Age Security pensions and \$1,290 of Canada and Quebec Pension Plan benefits exempt.
- Tax imposed on income diverted to tax havens.

ECONOMIC REVIEW

To reinforce the expansion of the economy now under way, the budget proposes the following 1971 tax and tariff changes:

- Removal of the 3-per-cent surtax on personal and corporate income taxes effective July 1, 1971, at a cost of \$130 million for the balance of the calendar year.
- Changes effective July 1 in lowest tax brackets to exempt taxpayers with less than \$500 of taxable income.
- Exemption of Guaranteed Income Supplement from taxation retroactive to January 1, 1971.
- Low-bracket changes and GIS exemption end income taxes for more than 750,000 people effective July 1.
- Removal of 12-per-cent sales tax on margarine, effective immediately, at a cost of \$7 million in a full year.
- Removal of 12-per-cent sales tax on all anti-pollution equipment used in production, effective immediately, at a cost of about \$8 million in a full year.
- Abolition immediately of 15-per-cent excise tax on television, radio and hi-fi sets, their components and other electronic equipment, at a full-year cost of about \$40 million.
- Duty on petroleum feedstocks of 3/4 cent a gallon under British Preferential Tariff and 1 cent a gallon under most-favoured-nation tariff reduced to 1/3 cent a gallon to aid Canadian petrochemical industry.
- Increase in tariff on polyethylene resins from

7 1/2 to 10 per cent, with corresponding increases for further processed forms of these resins, to assist Canadian plastics industry.

- Duty-free entry of production machinery not available in Canada and considered to be in the public interest extended to cover sawmill and logging machinery for the benefit of the Canadian forest industry.
- Suspension for two-year period of 1/3 cent a gallon duty on heavy fuel oils to help offset recent substantial price increases incurred by pulp and paper producers and power utilities, the saving for the pulp and paper industry alone amounting to over \$3.5 million.

REVENUES AND EXPENDITURES

The budget deficit for 1970-71 was just under \$420 million, representing a swing of \$810 million from the surplus of some \$390 million in 1969-70. Non-budgetary cash requirements rose by \$550 million, with the result that total cash requirements for 1970-71 increased by \$1,360 million over those of the previous year, not including funds required to finance foreign exchange transactions.

For 1971-72, budgetary revenues after tax changes are estimated at about \$13,660 million and expenditures at \$14,410 million, leaving a budget deficit of \$750 million.

Net non-budgetary requirements are forecast at \$1,680 million not including foreign exchange transactions, and total cash requirements for 1971-72 are estimated to be \$2,430 million.

BACKGROUND TO BUDGET

The Minister said that in his view, the advance of the economy in the second half of 1971 was stronger than it was at the time of his budget last December. He expects that the gross national product for the balance of this year will be 9 per cent or more above that for the same period last year.

"The Canadian economy last autumn marked a turning point from declining to expanding rates of growth in demand, output and employment. I am confident that as we move on through the second half of 1971 and into 1972, the performance of the economy will be strong and gaining momentum," he stated.

Total domestic demand increased in the first quarter of 1971 at the very high annual rate of 8 per cent, boosted particularly by high levels of expenditures for housing and consumer durables and by all levels of government.

Business capital investment continued to be the weakest element in the economy. But the stage has been set for an upturn by the expansion under way in demand for goods and services, the removal of uncertainty associated with tax reform, and the improvement in profits during the first quarter of 1971.

Consumer spending on goods and services other than durables has been relatively sluggish to date in 1971, but high rates of personal savings, the ready