

with profitability and projected demand in Canadian and foreign markets. The Sector also administers and manages the federal interests in mineral resources off-shore from Canada's east and west coasts and in the Hudson Bay region, as well as federally owned mineral rights in the provinces that become available for disposition.

**Tax incentives to the mineral industry.** Although mineral industry enterprises are subject to federal income tax, there are certain benefits granted to such enterprises under the Income Tax Act which serve as incentives to exploration and development of minerals, and to further processing of minerals. Certain modifications were made in the tax incentives to the mineral industry in the amended Income Tax Act which became effective on January 1, 1972.

Under the provisions of the amended Act, the exemption from income tax for the first three years of operation of new mining ventures will terminate at the end of 1973. However, initial capital expenditures in a new mining operation on buildings, machinery and equipment, and certain community and transportation facilities may be deducted as rapidly as income will permit. Consequently, new mining ventures will not be liable for federal income tax until these initial capital expenditures have been recovered. In the case of a major expansion of an existing mine, capital expenditures on buildings and on machinery and equipment also may be deducted immediately.

The operators of oil or gas wells or mines have been able to claim, during the full life of the operation, an automatic depletion allowance equal to one third of the taxable income. In general, the effect of the automatic percentage depletion allowance is to reduce the tax otherwise payable by one third. The automatic percentage depletion allowance will continue to apply until the end of 1976. Beginning in 1977, the automatic percentage depletion allowance will be replaced by an earned depletion allowance. The rate at which the earned depletion allowance may be deducted annually will remain at one third of the taxable income. However, the total amount of the allowance which may be deducted will be limited to the base or pool which is earned through eligible expenditures. The depletion base will amount to \$1 for every \$3 of expenditures on exploration and development activities, on certain assets acquired for a new mine or major expansion, and on facilities acquired to process, up to the prime metal stage, ores which were previously exported from Canadian mineral resources. Depletion may be earned on eligible expenditures between November 7, 1969 and the end of 1976 and accumulated for deduction after 1976.

Mining and petroleum companies will continue to have the right to claim costs of exploration and development incurred in the search for oil, gas or minerals in Canada as an immediate deduction from income from all sources. The cost of mineral properties will be classified as exploration expenses and immediately deductible. The cost of mineral properties will not earn depletion. Revenue from the sale of mineral properties will be treated as income.

Prospectors and their financial backers are no longer exempt from income tax on receipts from the sale of a mining property, but receipts in the form of shares will be classified as a capital gain upon sale of the shares. Only one half of a capital gain is subject to income tax. The tax liability of the prospector upon the sale of the shares may be further reduced through purchase of a forward-averaging annuity contract. Prospectors may deduct exploration costs, at the rate of 20% annually, from other income.

The general corporate tax rate which was 50% in 1972 will be reduced by one percentage point each year until it reaches 46% in 1976. The federal government abates to the provinces ten points of the corporate tax rate. Beginning in 1977, the abatement to the provinces in the case of mining companies will be increased by 15 percentage points, reducing the federal corporate tax rate on mining companies to 21%. At that time, the provinces will be in a position to occupy 25 percentage points of the corporate income tax rate on mines.

In the budget of May 8, 1972, the Minister of Finance proposed a reduction in the general corporate tax rate for manufacturing and processing to 40%, together with a two-year write-off on machinery, equipment and buildings. These benefits would apply to the processing of minerals only beyond the prime metal stage. It was also proposed that custom processors of minerals not owning a mineral resource would be eligible for the automatic depletion allowance as from January 1, 1973 and would be eligible to earn depletion for deduction after 1976 through expenditures on processing machinery and equipment acquired after 1972. The budget proposals were not enacted during the last session of Parliament, but the government indicated an intention to introduce enabling legislation in 1973.