

projected demand in Canadian and foreign markets. The Sector also administers and manages 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, certain benefits granted to them under the Income Tax Act serve as incentives to exploration and development of minerals and to further processing of minerals. Some 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 terminated 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 tax reform effected on January 1, 1972 was further modified by the federal Budget of November 18, 1974. To offset the new or greater royalties and increased mining taxes imposed by various provinces, the Government of Canada eliminated royalties, rentals, fees and mining taxes as deductions for income tax purposes. Simultaneously, the federal income tax rate for the mining industry was reduced to 25% to partially compensate for the non-deductibility of royalties and mining taxes. This decrease of about 15 percentage points from the normal federal rate of income taxation is commonly referred to as the "mining tax abatement".

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. By the November 18, 1974 Budget proposals, this will be replaced by an earned depletion allowance which may be deducted annually at the rate of 25%, formerly one third, of production profits, but the total deduction may not exceed the unclaimed balance of earned depletion remaining in the pool. 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, Canadian ores which were previously exported unprocessed. Depletion may be earned on eligible expenditures between November 7, 1969 and May 6, 1974 inclusive, and accumulated for deduction after May 6, 1974. During this period the automatic percentage depletion allowance was available. Eligible expenditures made after May 6, 1974 will continue to earn depletion. The Income Tax Act was amended in 1973 to render income to custom processors from the processing of mineral ores up to the prime metal stage eligible for the automatic depletion allowance from January 1, 1973. Moreover, expenditures on machinery and processing equipment acquired after May 8, 1972 will earn depletion 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 will be immediately deductible, but this cost 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 subjected 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. Amendments to the Act in 1973 provided that all individual taxpayers (including prospectors and grubstakers) may also invest, in a forward-averaging annuity contract, the proceeds in the form of money from the sale of resource properties after January 1, 1973. The benefit to the prospector lies in the fact that the total tax on the annual receipts from an annuity for two or more years will usually be less than