year in which the expenses are incurred and any unused balance can be carried forward indefinitely. Corporations which do not meet the principal business test may deduct 100% of Canadian exploration expenses incurred between May 25, 1976 and July 1, 1979 in the year incurred. For such corporations Canadian exploration expenses incurred on or before May 25, 1976 must be amortized at 30% on a declining balance basis. For all corporations, the amount which may be deducted for Canadian development expenses may not exceed 30% of the unamortized balance.

Taxpayers with resource profits are entitled to a resource allowance equal to 25% of such resource profits before the deduction of interest expense, exploration and development expense and earned depletion. In addition to the resource allowance, a taxpayer with resource profits may deduct earned depletion in computing his income for a taxation year. The earned depletion deduction for a particular taxation year is the lesser of the earned depletion base (one-third of qualifying expenditures to date less previous claims) and 25% of the resource profits. Canadian exploration and development expenses are qualifying expenditures.

Provincial royalties and mining taxes are not deductible in computing taxable income for federal purposes.

Capital equipment and facilities for a new mine may be written off immediately against income from the mine. The assets eligible for this accelerated depreciation include buildings, mining machinery, processing facilities and such social capital as access roads, sewage plants, housing, schools, airports and docks. The accelerated write-off provision for new mines will also apply in the case of a major expansion of an existing mine where there has been at least a 25% increase in milling capacity. The list of eligible assets is the same as for new mines except that social capital does not qualify.

Taxpayers operating timber limits receive an annual cost allowance. The rate of the allowance is based on the amount of timber cut in the year.

In computing taxable income, corporations may deduct dividends received from other Canadian taxable corporations and also from certain non-resident affiliates. Business losses may be carried back one year and forward five years and deducted in computing taxable income. Corporations may also deduct donations to charitable organizations up to a maximum of 20% of their income.

The standard rate of corporation income tax is 46%. A special deduction reduces this rate on Canadian manufacturing and processing profits to 40%. In order to make room for provincial corporation income taxes (which range from 9% to 15%), the provinces have been granted an abatement of 10% of federal tax otherwise payable on income earned in a province.

A small business deduction reduces the standard federal rate of tax on certain business income to 25%. This rate is reduced to 20% on Canadian manufacturing and processing profits. This small business deduction is restricted to private Canadian corporations which are not controlled by a non-resident or by a Canadian public corporation. It applies only to income from an active business carried on in Canada and not to investment income. The maximum amount of taxable income on which the deduction may be calculated is $150,000 in any one year. A corporation is entitled only to this deduction until it has accumulated $750,000 of taxable income since 1971.

A corporation that qualifies as an investment corporation pays tax at a standard federal rate of approximately 29%. The investment income (other than dividends) of a private corporation is subject to the standard rate of federal tax (that is, 46% before provincial abatement) but an amount not exceeding 16⅔% of such income is refunded when dividends are paid to shareholders. The 10% abatement granted to the provinces similarly applies to all of the above special rates.

Dividends received by a private corporation from portfolio investments are subject to a special 25% tax but this is refunded when dividends are paid to shareholders.

A corporation may elect to pay a special 15% tax on its 1971 undistributed income on hand. Dividends received from this tax-paid undistributed income before 1979 are not included in the income of the receiving shareholder but the amount of the dividend will reduce the adjusted cost base of the shares for capital gains tax purposes. Dividends paid from the untaxed half of a private corporation's capital gains are also excluded from