

penditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred.

A corporation whose principal business is mining, oil production and allied activities may deduct the costs of exploration and development in Canada against any income in the year the costs were incurred or in subsequent years. Taxpayers who do not meet the "principal business" test are entitled to deduct exploration and development expenses from mining and petroleum income. Starting in 1972, these expenses will be deductible from other income over a period of time if they exceed mining and petroleum income. Taxpayers may deduct certain foreign drilling expenses from directly related foreign-source income. Starting in 1972, all taxpayers may put foreign exploration and development expenses in a separate asset class and deduct them over a period of time if they exceed income from foreign mineral and petroleum properties.

The profits derived during the first three years of operation of a new mine are exempt from income tax until December 31, 1973. In place of the three-year tax exemption there will be an immediate write-off of capital equipment and facilities for a new mine to the extent of income from the mine. The assets eligible for this accelerated depreciation include buildings, mining machinery, processing facilities and "social capital" such 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 mines, oil wells, gas wells and wells for extracting potash by the solution method have been allowed a depletion allowance, usually computed as a percentage of profits (after deduction of capital cost allowances, exploration and drilling expenses and certain interest expenses) derived from mineral, oil or gas production. This allowance is in addition to capital cost allowances on buildings, machinery and similar depreciable assets used by the taxpayer and the deduction of his exploration and drilling expenses. This will continue until the end of 1976 after which a taxpayer will be able to deduct depletion only if it has been "earned" by exploration. For every \$3 of eligible expenditures, a taxpayer will earn the right to deduct \$1 of depletion. Eligible expenditures made after November 7, 1969 can be accumulated for the purpose of calculating earned depletion for 1977 and subsequent years.

Taxpayers operating timber limits receive an annual cost allowance which is a rateable proportion of the amount invested in the limit and is based on the amount of timber cut in the year.

In computing taxable income, corporations, with certain exceptions, may deduct dividends received from other Canadian taxable corporations and also from certain non-resident affiliates. Business losses may be carried back one year or 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 general rates of tax payable by corporations on their taxable income are as follows: 1972, 50%; 1973, 49%; 1974, 48%; 1975, 47%; 1976 and subsequent years, 46% except that starting January 1, 1973 the effective rate for manufacturing and processing profits is 40%. These rates of tax are reduced by 10 percentage points on income earned in a province. This "provincial abatement" is provided to make room for provincial income taxes. At the present time, provincial rates of corporate income tax range from 10% to 13%. For profits earned in the period July 1, 1971 to December 31, 1972, there is a temporary tax reduction equal to 7% of the tax otherwise payable before the 10 percentage points provincial abatement.

A "small business deduction" reduces the rate of tax on certain business income to 25%. This concession is restricted to Canadian corporations which are not controlled by a non-resident corporation 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 \$50,000 in any one year. A corporation is entitled to this deduction only until it has accumulated \$400,000 of taxable income commencing with taxation years starting after 1971. The payment of taxable dividends reduces the accumulation of taxable income for purposes of this limitation. The rate of 25% referred to will not be affected by the gradual reduction in the general federal rate of corporation income tax between 1972 and 1976 but this 25% rate is reduced by the 10 percentage points provincial