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Taxation

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TAXATION

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NOTE

The report on taxation is now divided into two parts. The report on the Caribbean is prepared by Marshall J. Langer. The report on Latin America is prepared by John P. Corrigan, Jr.

CARIBBEAN REPORT

ANTIGUA

Bank Interest Exempt

A recent amendment provides that interest paid by banks is exempt from income tax.

Withholding Tax

Another recent amendment provides that 25% tax shall be withheld on certain types of taxable income paid to non-residents of Antigua. This withholding apparently applies to amounts paid for technical services and fees paid to entertainers, but not to mortgage or debenture interest, royalties, pensions or dividends.

BARBADOS

Tax Rates

The maximum tax rate on individuals is now 65%, on amounts over US$15,000. Contributory pensions, including foreign social security payments, are now exempt from income tax. Up to US$300 of interest from savings banks is also exempt from income tax.

GUYANA

Amnesty

Guyana granted a one-month amnesty during July, 1972, in an effort to collect substantial amounts of unpaid income taxes. Under the amnesty persons confessing either to non-filing of returns or understatement of income, will not be liable to prosecution. They will, however, be required to pay the correct amount of tax due.

ST. KITTS — NEVIS

New Tax Acts

St. Kitts — Nevis has recently enacted a Turnover Tax Act and a Licenses and Business Act. The Turnover Tax Act imposes a 5% tax on gross receipts with respect to any business carried on in the State. An exception is provided for businessmen whose gross receipts are less than US$250 in any one month.

The Licenses and Business Act requires occupational licenses for most business and professional persons.

SOUTH AMERICA, PANAMA, CENTRAL AMERICA and MEXICO

ARGENTINA

Tax Incentives For Cattle Industry

Two laws were enacted in January, 1971, the principal effect of which is to grant income tax reductions ranging between 15% to 40% on income from cattle-raising. Law No. 19431 of January 11, 1972 and Law No. 19440 of January 20, 1972.

Withholding Tax On Dividends

The previous issue of the *LAWYER* reported the revised withholding tax rates enacted December 31, 1971 pursuant Law No. 19409. A subsequent resolution of the Tax Office modifies the withholding tax as applied to dividends. The 12% rate still applies to dividends paid or credited to non-resident shareholders except that stock dividends are not taxed. A similar 12% tax applies to dividends, including stock dividends, when paid to resident bearer shareholders who do not identify themselves to the Tax Office. Resident shareholders and those resident bearer shareholders who do identify themselves are not subject to withholding tax on dividends. General Resolution No. 1451 of February 25, 1971.

Export Tax

Exports will now be taxed up to 15% of their FOB value as determined by the Executive Branch taking into consideration domestic and international market factors. Laws Nos. 19501 and 19503 of February 22, 1972.

Additional Import Duties Repealed

The additional 15% import duty applicable since November 1971 has been repealed effective with the promulgation of Law 19501 of February 22, 1972.

BARBADOS

Income Tax Act of December 30, 1971

The text of the year-end 1971 Amendment has been received. Among the more important provisions are those which increase personal exemptions; grant an option for separate assessment of the earned income of each spouse; grant overall reduction in the tax rates which now range from 5% to 65%, the latter on amounts in excess of B$30,000.00; increase the investment allowance for new machinery or plant from 20% to 40%; increase the interest exemption on bank deposits to B$600.00; exempt the first B$20,000.00 of interest on National Development Bonds; and otherwise limit the rate of tax on Government Debentures to 12.5%.

BOLIVIA

Business Profit Tax

Commercial, industrial, mining and banking firms are required to file their Tax Return and Financial Statements by March 31st. Fifty percent of the tax is due on or before July 31st of the current tax year and the balance shall be paid no later than the filing of the Annual Tax Return. Supreme Decree No. 10078 of January 7, 1972.

BRAZIL

Agricultural Incentives Requested

In its Opinion Ruling No. 866 published March 2, 1972, the Tax Office ruled that those engaged in farming may deduct up to 80% of taxable income that is reinvested in the farming business. Where taxable income thus reduced exceeds 5% of gross receipts the taxable income of individuals shall be limited to 5% but this rule does not apply to legal entities.

Tax Credit For Investment In Common Stocks

Low income taxpayers may now deduct up to 24% from their income tax for investments in registered securities. The 12% limitation has been maintained for those taxpayers earning in excess of C70,000. The firms receiving the investment proceeds are now required to purchase convertible debentures or shares of open capital companies and at least 25% of such funds must be invested in small and medium sized companies. Decree Law No. 1214 of April 26, 1972.

SUDENE Exemptions Regulated

SUDENE has announced that tax exemptions by means of investment in approved projects will be limited for 1972 to industrial or agricultural projects in the states of Maranhão, Piaui and Sergipe, to agricultural projects in the State of Alagoas, and to four sugar cane industry projects in the northeast.

Incentives For Food Industry

It has been reported that the Minister of Finance has initiated a study to determine whether income tax exemptions should be granted to businesses engaged in the food industry. The proposal under consideration is that tax exemption would be contingent upon reinvesting profits in the business or in new businesses related to the production or processing of foods.

CHILE

Bank Loan Tax Rate

The tax on interest derived from non-adjustable bank loans has been established at 40% for the period February-April 1972. Central Bank Resolution of January 27, 1972.

Surcharge On Bank Loans

The Executive Branch has established the surcharge on the tax on loans made to foreign companies or for subsidiaries at 45.93% for the period February-April 1972. Decree No. 195 of February 1, 1972.

Incentives For Electronics Industries

Decree No. 1 of January 22, 1972, establishes tax incentives and import duty reduction for electronics industries that locate in the Department of Arica and which reinvest at least 30% of their profits. Qualifying firms must share at least 10% of their profits with their workers. The benefits are available through December 21, 1978.

COLOMBIA

Tax Credit Certificate

Tax Credit Certificates may now be redeemed by exporters within periods earlier than the original one-year limitation, depending upon the products classification pursuant to Decree No. 2382 of December 6, 1971.

Deductibility Of Remittance Tax

The Tax Office has ruled that the 12% Remittance Tax is deductible for purposes of computing the Excess Profits Tax and certain special taxes such as the Electric Development and Housing Tax. Circular No. 137 of December 30, 1971.

Auditing Of Non-resident Taxpayers

The Tax Office has ruled that Colombian citizens residing abroad are subject to audit and Tax Office determination of their taxable income. Circular No. 00009 of January 18, 1972.

COSTA RICA

Surcharge On Foreign Exchange

Foreign Exchange purchased in the Official Market to pay non-essential imports will be subject to a surcharge of 15% or 30% depending upon the goods' classification. The Central Bank Order of January 29, 1972 states that no surcharge will be levied on foreign exchange utilized to purchase capital assets financed on a long term basis.

Penalty For Late Payment

Decree 2174 of January 4, 1972, establishes a 1% per month penalty for late payment of taxes.

DOMINICAN REPUBLIC

New Restrictions On Foreign Investments And Remittances

The Monetary Board has resolved that future foreign investments will be restricted to the businesses of farming, cattle raising, manufacturing, mining, tourism, transportation, communications and financial companies. By financial companies it is presumed that the Board means to exclude banks and perhaps savings and loan associations from the approved list. The maximum amount of annual profits which may be remitted abroad will be limited to 18% based on the net value of the investment. Monetary Board Resolution of January 23, 1972.

Compulsive Profit Sharing Enacted

Agricultural, industrial, commercial and mining enterprises are now to distribute 10% of their annual net pre-tax profits amongst their permanent employees and workers. The annual payment is not to exceed one month's salary. This law does not apply to "Category A" enterprises established in Industrial Free Zones to small farming operations or to businesses established pursuant to the Tourist Promotion Law. Newly formed businesses would be exempt from the Profit Sharing Program for a three-year period. Law 288 of March 23, 1972.

Business Profits Tax Increased

Pursuant to the above-cited law, the 5% tax on business profits has been increased to 10%.

Free Zone Amended

A new decree has come into effect concerning the Free Zone located in San Pedro de Macorís. The previous decree was annuled and businesses locating within this Free Zone will be entitled to "Category A" benefits under the Industrial Promotion Law including income-tax and duty exemption. Decree No. 1574 of October 11, 1971

New Tourist Development

Pursuant to the recently enacted Tourist Promotion Law, the area of Polo de Puerto Plata has been declared a tourist zone. Decrees Nos. 2125 and 2126 of April 3, 1972.

EL SALVADOR

Duty Exemption Cancelled

Import duty exemption for textile manufacturers that sell to the local market was suspended effective February 8, 1972, pursuant to Order No. 883 of December 15, 1971.

GUATEMALA

Publication Of Financial Statements

Domestic corporations and foreign companies qualified to do business in Guatemala must publish their financial statements pursuant to regulations set forth in Order No. 77 of April 4, 1972.

HONDURAS

Reestablishment of Industrial Incentives

Order No. 43 of January 27, 1972, sets forth the rules for reestablishing tax incentives for Honduran companies competing in the Central American Common Market or elsewhere abroad.

Certain Tax Exemptions Restored

Tax exemptions on petroleum by-products will continue in force on aviation fuel purchased by the Air Force and with regard to certain petroleum by-products utilized on projects financed by means of designated loans. Executive Decree No. 6 of March 14, 1972.

Tax On Vacant Land

A new tax has been imposed on undeveloped real property with rates ranging between 3% to 40% of assessed value depending upon the number of years the property remains vacant. The tax apparently applies to both urban and rural property including farming property that is abandoned or exploited on low yield basis. Order No. 7 of February 17, 1972.

MEXICO

Registration Of Foreign Financial Institutions

Foreign financial institutions may apply to the Secretary of the Treasury for registration so that interest paid to them shall be withheld at the flat rate of 10%. For those institutions not registered or whose registration is denied, interest is taxed at the normal progressive rates with withholding to be made at 20% on account of the final tax liability. The texts of these Treasury Rulings are set forth in the Official Gazette published April 10 and 11, 1972.

NICARAGUA

Export Incentives

A recent decree offers reduced tax rates for those firms that export outside of the Central American Common Market. The amount and duration of tax rebate is to be determined by the Executive Branch in accordance with the benefits to be offered to the country by the enterprise concerned.

Exemptions For Foreign Loans

The Executive Branch has decreed that interest on certain foreign loans qualifies for exemption for income tax and the principal of such loans will also qualify for exemption from the tax on capita. Decree No. 6 of March 2, 1972.

Exempted Industries To Utilize Nicaraguan Flag Vessels

Companies enjoying tax exemptions are now required to ship their goods in coastal trade via Nicaraguan flag vessels. Reciprocal treatment is granted to the other Central American countries. Decree No. 7 of April 26, 1972.

Export Incentive

Decree No. 19 of January 13, 1972, provides exemption from export duties on imports of raw material and containers utilized in manufacturing goods to be exported outside the Central American Common Market.

PARAGUAY

Income Tax Amendments

A recent decree increases the tax rates on domestic and foreign legal entities and imposes a 5% tax on capital gains from the sale of real estate. All foreign entities and domestic companies will now be taxed at 25% on the first G500,000 of taxable income and at 30% on all taxable income in excess thereof. The decree provides for imputed income for exporting companies and those firms that lack accounting books and records. Decree-Law No. 51 of February 25, 1972.

Incentives For Low-Cost Housing

A new system with tax incentives has been established to promote the construction of low-cost housing. A national Savings and Loan Bank has been established that will supervise the recently authorized savings and loan associations. The latter may be organized as a corporation or as a mutual association and at least 51% of their equity capital must be held by Paraguayans. The Bank and the savings and loan associations will enjoy exemption from income, sales and stamp taxes as well as exemption from business license taxes and import duties. Interest from loans guaranteed by the Bank will be exempt from income tax. Law No. 325 of December 10, 1971.

Creation Of Free Zone

A Free Zone has been created at the Port of Presidente Stroessner. Goods brought into the Free Zone will be exempt from import duties, transfer, production and excise taxes. The law appoints a concessionaire who will be liable for income tax and a stipulated tax in the nature of ground rental. Law No. 273 of October 9, 1971.

PERU

Tax Deferral For Mining Companies

A recent Decree-Law authorizes the Executive Branch to grant mining companies deferral of income tax in cases where a mining company obtains loans from foreign financial institutions for projects approved by the Government. Subject to limitations set forth in the Decree, the deferral will continue throughout the term of the loans. Decree-Law No. 19299 of February 22, 1972.

Tax on Idle Urban Land

An annual tax has been decreed on vacant urban real property. Owners of a single lot are exempted subject to their promise to build within five years. Rates range from 1% for two lots and up to 5% for ten lots or more. The rates increase further on an annual basis if the land continues under the same ownership. The tax is based on the taxpayer's own assessment which may not be lower than the official assessment. Decree Law No. 19381 of April 25, 1972.

Withholding Tax On Agrarian Reform Bonds

Whereas the principal and interest of Agrarian Reform Bonds are payable in shares of Government-owned entities, withholding tax on the interest and on capital gains will henceforth be effective by the Government's retaining 25% of such shares. Decree-Law No. 19337 of March 28, 1972.

Industrial Community Law Regulated

A recent decree defines how the workers' share in the net income of industrial, fishing, mining and communication firms is to be computed. The net income will be determined in accordance with existing income tax law, deducting those items allowed in the new decree, excluding gain or losses from investments in other businesses, without deducting tax-free reinvestments, but with the right to deduct 50% of certain fines and penalties. Supreme Decree No. 050-72-EF of April 4, 1972.

URUGUAY

Proposed Tax Reform

The Government Commission charged with revising Uruguay's tax system is reported as having requested an extension of time in which to complete its work. Decree No. 286 of April 20, 1972.

VENEZUELA

Posted Price For Petroleum Products

The posted price of crude oil and petroleum by-products for 1972 has been established pursuant to Joint Resolution No. 151 of April 14, 1972, of the Ministry of the Treasury and the Ministry of Mines of Hydrocarbons.

EDITOR'S NOTE

The Inter-American Center of Tax Administrators, with headquarters in Panama, is carrying out very valuable work in the area of taxation in the Americas. Its *Newsletter,* among other important items, has carried a series of reports on Comparative Tax Legislation. The *Lawyer* appreciates the collaboration of the Center and is pleased to reproduce herewith an extract from the June, 1972 issue of the *Newsletter.*

COMPARATIVE LEGISLATION: TAX REFORM IN CANADA

The Tax Reform Bill (C-259) passed the final reading in Parliament and received Royal Assent on December 23, 1971. The new law published as Chapter 63 of the Statute of 1970/71, entered into force on January 1, 1972. On the basis of information distributed by the Department of National Revenue (Taxation) we can summarize the main aspects of the tax reform, especially regarding income tax.

A) *Modifications regarding Individual Income Tax*

— *The personal exemptions* have been increased in general. For instance: The basic personal exemption of $1,000 is increased to $1,500. The additional $1,000 exemption allowed to taxpayers supporting a wife or husband is increased to $1,350. The maximum exemption amounts, $550 for a child of 16 or over and $300 for a child under 16, remain unchanged. Where dependent children receive income, however, the exemption amounts are reduced as follows: For a child 16 or over, the $550 exemption is reduced by the amount that the child's income exceeds $1,050; for a child under 16, the $300 exemption is reduced by half the amount by which the child's income exceeds $1,000. The age exemption has been increased to $650 from $500 and the qualifying age of 70 years has been lowered to 65. Also, the special deduction for blind persons and those confined to a bed or wheelchair has been increased to $650 from $500.

—*New exemptions were approved.* For instance, beginning in 1972 certain costs of caring for children will be allowed as a deduction from income. The general effect of the child care expense provision is that where a mother has her children cared for in order that she may work, she may be eligible to deduct some or all of the cost of such care from her income. Beginning in 1972, if you move in order to work in a new location, you may be eligible to deduct your moving expenses from income earned at the new location. Moving expense deductions may be claimed by salary or wage earners, self-employed persons, and in some instances, students of post-secondary educational institutions. An employment expense deduction will be allowed for 1972 and following years. Employees will be allowed to deduct three percent of their employment income, up to a maximum of $150. No receipts or details of actual expenses are required in order to claim this deduction. Beginning in 1972, Unemployment Insurance Premiums will be deductible from income.

—*Changes in others personal exemptions.* For instance, in the past, construction workers have not been required to include in their income allowances paid by their employers to cover travelling expenses to a distant work site, or board and lodging while at the site. Beginning in 1972, this provision will be extended to all employees who must work at a site distant from their ordinary residence, provided they meet the following conditions:

— The employee must maintain a residence in which he supports a dependent, and the work site must be far enough from the residence to prevent him from returning to it daily.

— The duties at the work site must be of a temporary nature, or the site must be a place to which the employee could not reasonably be expected to bring his family because of location or lack of facilities.

— The employee must be away from his residence for a total of at least 36 hours.

The tax treatment of medical expenses will be changed, beginning in 1972, as follows: Medical expenses for which a person is entitled to reimbursement from a public or private medical insurance plan will not be deductible, although the difference between the amount reimbursed and actual costs may be deducted. Premiums paid by an individual to a non-government medical or hospital care plan will be deductible as medical expenses. The list of deductible medical expenses will be expanded to include payments to a school or other institution for the care and training of mentally or physically handicapped or disabled persons, including those with special learning disabilities.

The option to claim a $100 standard deduction for charitable donations and medical expenses instead of itemized expenses remaining unchanged. The limit on claims for charitable donations where the standard deduction is not made will be increased to 20% of the taxpayer's net income, instead of 10% as in the past. Beginning in 1972, deduction limits will be increased for: employee and employer contributions to registered pension plans; self-employed and employee premiums for a registered retirement savings plan; employer contributions to a deferred profit sharing plan.

—*Income Averaging.* Two changes to the Income Tax Act will provide for averaging income over a period of year where income for any given year is unusually high.

The first of these is an averaging calculation that will automatically be made by the Department when your income is 20% more than the average of the preceding four years and 10% more than the income of the immediately preceding year. You will not have to elect to average, or make the calculation yourself. The calculation will be automatically made by computer, and you should calculate your tax payable in the normal manner. The calculation can never increase your tax payable, and when it reduces tax it will either increase your refund or reduce any amount owing. The first year for which an averaging calculation can be applied will be the 1973 taxation year, using the income of 1972 as the base. It will not be until the 1976 tax year that the full four previous years will be used. Farmers and fishermen may continue to use the five-year block averaging they have been allowed in the past. Years used in block averaging, however, cannot be used for general averaging.

The second method of averaging income is by the purchase of a special type of annuity called an income averaging annuity, the cost of which is deductible from income of the year in which the annuity is purchased. The purpose of allowing the cost of these annuities as deductions is to distribute unusual lump sum receipts in equal portions over a period of years rather than require such receipts to be included in the income of a single year. Amongst those who may benefit from the purchase of income averaging annunities are persons who receive income from: taxable capital gains; production of a literary, dramatic, musical or artistic work; activities as an athlete, musician or public entertainer; a pension plan in a lump sum on termination of employment; a death benefit in a lump sum.

— *Additional items of Income.* Beginning in 1972, several additional sources of income must be included when calculating the taxable income of individuals, such as unemployment insurance benefits, the employers' contribution to a public medical care insurance plan, scholarships, fellowships and bursaries (minus a $500 exemption) and one half of certain capital gains. The new Act broadens the tax base of Canadian taxpayers by adding capital gains to definition of income. The general rule is that one-half of capital gains are known as "taxable capital gains" and will be included in the taxpayer's income and taxed at normal personal or corporate rates, depending upon the status of the taxpayer. One-half of capital losses, other than certain kinds of losses such as those resulting from non-arm's length transactions and from certain personal-use assets will be deductible against taxable capital gains. The deductible one-half of capital losses is known as "allowable capital losses". Individuals may also deduct up to $1,000 of allowable capital losses from their other income. There are specific loss carry back and carry forward provisions for both corporations and individuals. Gains will be taxable and losses deductible when assets are sold or given away, upon the death of the taxpayer, upon the departure of the taxpayer from Canada, or as a result of changes in the use of the assets.

Rules are provided to exclude from capital gains and losses any amounts that arose before January 1, 1972 and to allow a deferral of the gain or loss on certain non-arm's length transfers of property. Gains from "windfalls" such as sweepstakes, gambling and other games of chance are not subject to tax. The acquisition of property by way of gift, bequest or inheritance is not a capital gain subject to tax in the hands of the recipient, but could result in a capital gain to the donor.

Also, any profit on the disposition of a person's home will be exempt from tax as long as the home qualified as his principal residence during the entire period of ownership after 1971. In addition to the foregoing exclusions, proceeds from the disposition of property which are taken into account in computing income under other provisions of the Income Tax Act are not subject to the capital gains provisions. This would apply to dispositions of property such as resource properties, goodwill and life insurance policies (other than annuities).

— *Dividend tax credit.* In the past, individual taxpayers receiving dividends from taxable Canadian corporations have included the dividend amount, minus carrying charges and depletion, in their income, and have then been allowed to deduct from tax otherwise payable 20% of the net amount included in income. Beginning in 1972, the procedure for reporting dividend income, and claiming credit, will be revised. Taxpayers will now increase the amount of their dividends by one-third, and report this total on the return. A credit against federal tax payable will then be allowed of four-fifths of the additional one-third thus included in income. In agreeing provinces, provincial taxes will be a percentage of federal tax. The result is that the remaining one-fifth will in effect be allowed as a reduction in provincial tax.

Thus an individual receiving a dividend of $300 from a taxable Canadian corporation will include $400 in his income. He will be allowed to deduct from his federal tax a credit of $80 (four-fifths of the additional $100). The reduction in his provincial tax, assuming the province imposes a 30% rate, would be $24 (30% of $80). The total credit would, therefore, be $104. In the past, the credit was based on net dividends, after deducting carrying charges and depletion. The new provisions are more generous in that the credit is based on the gross dividends before deducting carrying charges. Carrying charges will still be deductible when computing income. Shareholder's depletion allowances, which were deductible in some instances in the past, will be discontinued.

— *Entertainment Expenses.* Beginning January 1, 1972, memberships fees or dues, including initiation fees, for any recreational, dinning or sporting club will not be deductible as a business expense from the income of commission salesmen or self-employed taxpayers.

— *Tax rates.* The Old Age Security Tax, the Social Development Tax, the 20% or $20 deduction of the old Act and the 3% Surtax will no longer be in effect. The tax of 4% on foreign investment income was also eliminated. The basic rate in 1972 ranges from 17% for taxable amounts under $500 to a maximum of 47% on amounts in excess of $60,000 with rate reductions applicable to incomes under $500 in each year thereafter to 1976.

B) *Modifications regarding Corporation Income Tax*

The main modifications are the following:

— One-half of the cost of goodwill and similar intangible assets will be deductible at a rate of 10% per year on a declining balance.

One-half of the proceeds of sale of such assets will be included in income. As the cost of such assets of a business carried on at the start of the system cannot be deducted special transitional rules reduce the amount to be included in income if these assets are sold—between January 1, 1972, and December 31, 1983.

—Membership fees in recreational and social clubs and the expenses of a yacht, camp or lodge are not deductible.

—Losses created by capital cost allowance deductions on rental property are not deductible from non-rental income.

—Rental buildings costing $50,000 or more that are acquired after 1971 must be placed in separate capital cost allowance classes.

—Corporations will be allowed a full deduction for interest paid on money borrowed to purchase shares in other corporations.

—Foreign state income taxes may be either deductible in computing world income subject to Canadian tax or may qualify as a foreign tax credit.

—One-half of capital gains (taxable capital gains) realized after 1971 are included in income and taxed at normal corporate rates. One-half of capital losses (allowable capital losses) are deductible from taxable capital gains in computing income.

—One-half of capital losses (allowable capital losses) may be carried back one year and forward any number of years, being applied against net taxable capital gains, until absorbed.

—A corporation paying a dividend in kind is deemed to have disposed of the property transferred to the shareholder at fair market value and may realize a taxable capital gain.

—The limit on deductible charitable donations is increased to 20% of income from 10% of income. Donations to qualifying national amateur athletic associations will be deductible in the same manner as gifts to qualifying charitable organizations.

—The general rate of tax for corporations is 50%, reducing by one percentage point annually to 46% in 1976.

—A corporation may elect to pay a special 15% tax on its 1971 undistributed income on hand and add the amount on which it elected (less the 15% tax) to tax-paid undistributed surplus on hand. A dividend paid out of tax-paid undistributed surplus on hand is taxfree to a shareholder but reduces the cost base of the shareholder's shares. Once the special 15% tax has been paid on the full balance of 1971 undistributed income on hand, the corporation may pay a dividend out of 1971 capital surplus which is tax-free to the shareholder but reduces the cost base of the shareholder's shares. If a dividend, or a part of one, elected to be paid out of 1971 tax-paid undistributed surplus on hand, exceeds the balance of that account, the corporation must pay a special tax equal to the excess. Similarly, a tax is payable equal to the excess of any amount specified in an election to pay a dividend from capital surplus on hand over the balance in the account. In addition, if an election to pay a dividend from capital surplus on hand is made when the corporation has a balance of 1971 undistributed income on hand, a special tax becomes payable equal to that balance or the amount of the dividend if it is the lesser.

— Taxpayers whose principal business is not mining or petroleum will be allowed more generous deductions for Canadian exploration and development expenses.

— All taxpayers will be allowed more generous deductions for foreign exploration and development expenses.

— Acquisition of mining properties and royalty interests will be treated as exploration and development expenses, and proceeds on disposals of such properties will be fully taxable subject to transitional rules for those owned at December 31, 1971.

— Three year tax exemption for new mines will be withdrawn after 1973 and replaced by an accelerated write-off of capital equipment and on-site facilities, including townsite facilities such as sewage plants, roads, hospitals and schools. The accelerated write-off will also apply to a major expansion of an existing mine where capacity is increased by at least 25%.

— A federal corporate tax abatement on mining profits of 15 percentage points will be introduced. This abatement which commences in 1977 will also apply in the Yukon and Northwest Territories.

— The main objective of the new legislation is to treat mutual funds and investment corporations essentially as conduits between their shareholders/investors and the sources from which their income is derived.

— Many changes in taxation of international income do not take effect until 1976. This will allow time for the negotiation of new tax treaties and for the renegotiation of existing treaties.

— Foreign tax credits continue to be available to corporate taxpayers resident in Canada in respect of taxes paid in foreign jurisdictions on their foreign income.

— Taxes paid to political subdivisions of foreign countries are deductible from foreign income or included in the foreign tax credit calculation, depending on treatment given these taxes in the foreign country.

— Foreign taxes on business income in excess of the foreign tax credit applicable may be carried forward for five years.

— The exemption from tax for foreign business corporations is being phased out over five years commencing with the first taxation year after 1971. Dividends paid by these corporations after 1971 are eligible for dividend tax credit.

— The new Act contains special rules for the taxation of income of taxpayers resident in Canada from "foreign affiliates".

— Dividends received by corporations resident in Canada from foreign affiliates continue to be exempt from tax if paid out of pre-1976 earnings. For dividends paid out of post 1975 business earnings, the exemption continues if the profits are earned in a treaty country; if earned in a non-treaty country part or all the dividends may be exempt, depending on the level of foreign taxes paid.

— After 1972 a Canadian shareholder of a foreign affiliate will be required to include in his income his proportionate share of the affiliate's "foreign accrual property income," whether or not that income is distributed. Such income is limited to income from property such as investment income, or capital gains, and income from non-active businesses.

— The rate of tax on non-resident-owned investment corporations remains at 15% until the end of 1975 except for the tax on net capital gains from dispositions of taxable Canadian property which is levied at the rate of 25% commencing with the 1972 taxation year. For 1976 and subsequent taxation years, the rate of tax on all the taxable income of the corporation will be 25%.

— The general rate of withholding tax on investment income paid to non-residents remains at 15% until the end of 1975, then increases to 25% unless reduced by treaty.

— The rate of withholding tax on dividends paid by a corporation with a degree of Canadian ownership continues to be five percentage points less than the general or treaty rate.

— The special branch tax paid by non-Canadian corporations will be increased to the general withholding tax rate and will apply equally to corporations whether resident or non-resident.

— Since 1972, the general corporation tax rates are as follows: 1972-50%; 1973-49%; 1974-48%; 1975-47%; 1976-46%.