

BUILDING A STRONG MIDDLE CLASS

#Budget2017

Tabled in the House of Commons
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Minister of Finance

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In recent years, Canada has phased out a number of corporate income tax preferences for oil, gas, and coal mining. To make further progress, Budget 2017 proposes to:

- Modify the tax treatment of successful oil and gas exploratory drilling. The success rates for exploratory drilling have increased substantially since the 1990s and, in a majority of cases, discovery wells now lead to production, which makes the well an asset of enduring value. Consistent with the usual treatment of enduring assets, expenses associated with oil and gas discovery wells will be treated as Canadian development expenses, which are deducted gradually over time, rather than as immediately deductible Canadian exploration expenses, unless and until they are deemed unsuccessful.
- Remove the tax preference that allows small oil and gas companies to reclassify Canadian development expenses as immediately deductible Canadian exploration expenses when they are renounced to flow-through share investors. This will ensure that these development expenses, which create an asset of enduring value, are deducted gradually over time.

Maintaining the Effectiveness of the Excise Duty on Alcohol

The Government applies excise levies to products like tobacco, alcohol and certain fuels. These levies are generally imposed at the time of production or importation, and are paid by the manufacturer or importer. Excise levies can also be used to achieve specific policy goals, such as improving health.

Excise duty rates on alcohol products have not effectively changed since the mid-1980s. Over time, they have represented a smaller and smaller proportion of the total price of alcohol products, reducing their effectiveness. Budget 2017 proposes that, to maintain their effectiveness, excise duty rates on alcohol products be increased by 2 per cent effective the day after Budget Day, 2017, and that rates be automatically adjusted to the Consumer Price Index on April 1 of every year starting in 2018.

As the Government moves forward with a new taxation regime on cannabis, it will take steps to ensure that taxation levels remain effective over time.

Updating Tax Measures to Reflect Changes in the Economy

Over time, changes in the economy have made a number of provisions in Canada's tax statutes less relevant than when they were first introduced. To address these changes, Budget 2017 proposes to:

- Amend the definition of a taxi business under the *Excise Tax Act* to level the playing field and ensure that ride-sharing businesses are subject to the same GST/HST rules as taxis.
- Eliminate the use of billed-basis accounting for income tax purposes by a limited group of professionals in order to avoid giving these professionals a deferral of tax that is not available to other taxpayers.