

**Notice of Ways and Means Motion to introduce an Act to amend the
Income Tax Act (natural resources)**

Summary

This enactment amends the *Income Tax Act* to give effect to the new structure for federal income taxation of resource income as announced in the 2003 Budget and the Department of Finance Technical Paper "Improving the Income Taxation of the Resource Sector in Canada" released on March 3, 2003.

In particular, this enactment includes measures:

- to implement a deduction for Crown royalties and mining taxes;
- to eliminate the resource allowance;
- to reduce the corporate tax rate applicable to resource income; and
- to introduce a new 10-per-cent tax credit for qualifying mineral exploration expenses.

Notice of Ways and Means Motion to introduce an Act to amend the Income Tax Act (natural resources)

That it is expedient to introduce an Act to amend the Income Tax Act (natural resources), as follows:

R.S., c. 1 (5th Supp.)

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. (1) Paragraph 12(1)(o) of the *Income Tax Act* is replaced by the following:

Royalties, etc.

(o) any amount (other than a prescribed amount and an amount referred to in paragraph 18(1)(m))

(i) that became receivable in the year by

(A) Her Majesty in right of Canada or of a province,

(B) an agent of Her Majesty in right of Canada or of a province, or

(C) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province, and

(ii) that can reasonably be considered to be a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus, however described, or to be in respect of the late receipt or non-receipt of any of those amounts, in relation to

(A) the acquisition, development or ownership of a Canadian resource property of the taxpayer, or

(B) the production in Canada

(I) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or

gas well located in Canada, in respect of which the taxpayer had an interest,

(II) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or from a mineral resource located in Canada, in respect of which the taxpayer had an interest,

(III) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada in respect of which the taxpayer had an interest,

(IV) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada in respect of which the taxpayer had an interest, or

(V) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from a deposit located in Canada of bituminous sands or oil shales in respect of which the taxpayer had an interest;

(2) Paragraph 12(1)(o) of the Act is repealed.

(3) Subsection 12(1) of the Act is amended by adding the following after paragraph (x.1):

Crown charge
rebates

(x.2) the total of all amounts each of which is an amount that

(i) was received by the taxpayer, including by way of a deduction from tax, in the year as a refund, reimbursement, contribution or allowance, in respect of an amount that was at any time receivable, directly or indirectly in any manner whatever, by Her Majesty in right of Canada or of a province in respect of

(A) the acquisition, development or ownership of a Canadian resource property, or

(B) the production in Canada from a mineral resource, a natural accumulation of petroleum or natural gas, or an oil or a gas well, and

(ii) was not otherwise included in computing the taxpayer's income for the year or a preceding taxation year;

(4) Paragraph 12(1)(z.5) of the Act is repealed.

(5) Subsection (1) applies to amounts that become receivable after December 20, 2002.

(6) For each taxation year that ends after 2002 and begins before 2007, paragraph 12(1)(o) of the Act applies only to the percentage of each amount described by that paragraph that is the total of

(a) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(b) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(c) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(d) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(e) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

(7) Subsection (6) does not apply for the purpose of applying any provision of Part XII of the *Income Tax Regulations* that makes reference to the income of a taxpayer.

(8) Subsection (2) applies to taxation years that begin after 2006.

(9) Subsection (3) applies to taxation years that end after 2002, except that for each taxation year that begins before 2012 paragraph 12(1)(x.2) of the Act, as enacted by that subsection, applies to the amount determined in respect of that taxation year by the formula

$$[A - (B \times C \times D)] \times E$$

where

A is the amount to which that paragraph would apply but for this subsection;

B is the total of all amounts each of which was received by the taxpayer in the taxation year under Division 1 of Part 6 or Part 11 of the *Alberta Corporate Tax Act*, chapter A-15 of the Revised Statutes of Alberta 2000;

C is

(a) in the case of an individual, 1,

(b) in the case of a taxable Canadian corporation, the greater of 0 and the fraction determined by the formula

$$1 - (F/\$3 \text{ million})$$

where

F is the amount by which the Alberta crown royalty, within the meaning assigned by Division 1 of Part 6 of the *Alberta Corporate Tax Act*, chapter A-15 of the Revised Statutes of Alberta, 2000, of the corporation for the taxation year exceeds \$2 million, and

(c) in any other case, 0;

D is the percentage that is the total of

(a) that proportion of 50% that the number of days in the taxation year that are before 2008 is of the number of days in the taxation year,

(b) that proportion of 40% that the number of days in the taxation year that are in 2008 is of the number of days in the taxation year,

(c) that proportion of 30% that the number of days in the taxation year that are in 2009 is of the number of days in the taxation year,

(d) that proportion of 20% that the number of days in the taxation year that are in 2010 is of the number of days in the taxation year, and

(e) that proportion of 10% that the number of days in the taxation year that are in 2011 is of the number of days

in the taxation year; and

E is

(a) for the purpose of applying any provision of Part XII of the *Income Tax Regulations*, nil, and

(b) for any other purpose, the percentage that is the total of

(i) that proportion of 10% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(ii) that proportion of 25% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(iii) that proportion of 35% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year,

(iv) that proportion of 65% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year, and

(v) that proportion of 100% that the number of days in the taxation year that are after 2006 is of the number of days in the taxation year.

(10) For each taxation year that ends after 2002 and begins before 2007, the reference to "25%" in paragraph 12(1)(z.5) of the Act is to be read as a reference to the percentage that is the total of

(a) that proportion of 25% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(b) that proportion of 22.5% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(c) that proportion of 18.75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(d) that proportion of 16.25% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(e) that proportion of 8.75% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

(11) Subsection (4) applies to taxation years that begin after 2006.

2. (1) Paragraph 18(1)(1.1) of the Act is repealed.

(2) Paragraph 18(1)(m) of the Act is replaced by the following:

Royalties, etc.

(m) any amount (other than a prescribed amount)

(i) that is paid or payable in the year to

(A) Her Majesty in right of Canada or of a province,

(B) an agent of Her Majesty in right of Canada or of a province, or

(C) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province, and

(ii) that can reasonably be considered to be a royalty, tax (other than a tax or portion of a tax that can reasonably be considered to be a municipal or school tax), lease rental or bonus, however described, or to be in respect of the late payment or non-payment of any of those amounts, in relation to

(A) the acquisition, development or ownership of a Canadian resource property, or

(B) the production in Canada

(I) of petroleum, natural gas or related hydrocarbons from a natural accumulation of petroleum or natural gas (other than a mineral resource) located in Canada, or from an oil or gas well located in Canada,

(II) of sulphur from a natural accumulation of petroleum or natural gas located in Canada, from an oil or gas well located in Canada or

from a mineral resource located in Canada,

(III) to any stage that is not beyond the prime metal stage or its equivalent, of metal, minerals (other than iron or petroleum or related hydrocarbons) or coal from a mineral resource located in Canada,

(IV) to any stage that is not beyond the pellet stage or its equivalent, of iron from a mineral resource located in Canada, or

(V) to any stage that is not beyond the crude oil stage or its equivalent, of petroleum or related hydrocarbons from a deposit located in Canada of bituminous sands or oil shales;

(3) Paragraph 18(1)(m) of the Act is repealed.

(4) Subsections (1) and (2) apply to amounts that become payable after December 20, 2002.

(5) For each taxation year that ends after 2002 and begins before 2007, paragraph 18(1)(m) of the Act applies, notwithstanding paragraph 20(1)(v) of the Act, only to the percentage of each amount described by that paragraph 18(1)(m) that is the total of

(a) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(b) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(c) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(d) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(e) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

(6) Subsection (5) does not apply for the purpose of applying any provision of Part XII of the *Income Tax Regulations* that makes reference to the income of a taxpayer.

(7) Subsection (3) applies to taxation years that begin after 2006.

3. (1) Paragraph 20(1)(v.1) of the Act is repealed.

(2) Subsection 20(15) of the Act is repealed.

(3) For each taxation year that ends after 2002 and begins before 2007, paragraph 20(1)(v.1) of the Act applies only to the percentage of the amount described by that paragraph that is the total of

(a) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(b) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(c) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(d) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(e) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year.

(4) Subsection (1) applies to taxation years that begin after 2006.

(5) Subsection (2) applies to taxation years that end after 2002.

4. (1) Subparagraph 66(12.66)(b)(ii) of the Act is replaced by the following:

(ii) would be described in paragraph (h) of the definition "Canadian exploration expense" in subsection 66.1(6) if the words "paragraphs (a) to (d) and (f) to (g.1)" were read as "paragraphs (a), (d) and (f)", or

(2) Subparagraphs 66(12.66)(b)(i) and (ii) of the Act are replaced by the following:

(i) are described in paragraph (a), (d), (f) or (g.1) of

the definition "Canadian exploration expense" in subsection 66.1(6) or paragraph (a) or (b) of the definition "Canadian development expense" in subsection 66.2(5),

(ii) would be described in paragraph (h) of the definition "Canadian exploration expense" in subsection 66.1(6) if the words "paragraphs (a) to (d) and (f) to (g.1)" were read as "paragraphs (a), (d), (f) and (g.1)", or

(3) Paragraph (g) of the definition "Canadian resource property" in subsection 66(15) of the Act is replaced by the following:

(g) any right to or interest in any property described in any of paragraphs (a) to (f), other than a right or an interest that the taxpayer has because the taxpayer is a beneficiary under a trust or a member of a partnership;

(4) Subsection 66(17) of the Act is replaced by the following:

Non-arm's
length
partnerships

(17) For the purpose of paragraph (12.66)(d), a partnership and a corporation are, at all times in a calendar year,

(a) deemed not to deal with each other at arm's length, if

(i) an expense is deemed by subsection (12.61) to be incurred by the partnership,

(ii) the expense would, if this Act were read without reference to paragraph (12.61)(b), be incurred in the calendar year by the corporation, and

(iii) a share of the expense is included, because of paragraph (h) of the definition "Canadian exploration expense" in subsection 66.1(6), in the Canadian exploration expense of the corporation or of a member of the partnership with whom the corporation, at any time in that calendar year, does not deal at arm's length; and

(b) deemed to deal with each other at arm's length, in any other case.

(5) Subsection (1) applies after December 5, 1996.

(6) Subsection (2) applies to expenses incurred after 2002 pursuant to a flow-through share agreement entered into after July 26, 2002.

(7) Subsection (3) applies to rights and interests acquired after December 20, 2002.

(8) Subsection (4) applies to expenses incurred after 1996, other than expenses incurred in January or February 1997 in respect of an agreement that was made in 1995.

5. (1) Paragraph (g) of the definition "Canadian exploration expense" in subsection 66.1(6) of the Act is replaced by the following:

(g) any expense incurred by the taxpayer after November 16, 1978 for the purpose of bringing a new mine in a mineral resource in Canada into production in reasonable commercial quantities and incurred before the new mine comes into production in such quantities, including an expense for clearing, removing overburden, stripping, sinking a mine shaft or constructing an adit or other underground entry,

(2) The definition "Canadian exploration expense" in subsection 66.1(6) of the Act is amended by adding the following after paragraph (k.1):

(k.2) any portion of any expense that may reasonably be considered to have resulted in revenue earned by a taxpayer if

(i) the expense is otherwise described by subparagraph (f)(i), (iii) or (iv) and the revenue is earned before a new mine of the taxpayer in the mineral resource referred to in paragraph (f) comes into production in reasonable commercial quantities, or

(ii) the expense is otherwise described by paragraph (g) and the revenue is earned before the new mine referred to in that paragraph comes into production in reasonable commercial quantities,

(3) The description of L in the definition "cumulative Canadian exploration expense" in subsection 66.1(6) of the Act is replaced by the following:

L is that portion of the total of all amounts each of which was deducted by the taxpayer under subsection 127(5) or

(6) for a taxation year that ended before that time and that can reasonably be attributed to a qualified Canadian exploration expenditure, a pre-production mining expenditure or a flow-through mining expenditure (each expenditure within the meaning assigned by subsection 127(9)) made in a preceding taxation year, and

(4) Subsection (1) applies to expenses incurred after May 9, 1985.

(5) Subsection (2) applies to expenses incurred after ANNOUNCEMENT DATE.

(6) Subsection (3) applies to the 2003 and subsequent taxation years.

6. (1) Paragraph (e) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(e) notwithstanding paragraph 18(1)(m), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (b), (e) or (f) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such property (other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) but not including any payment made to any of the persons referred to in subparagraph 18(1)(m)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment to which paragraph 18(1)(m) applied because of clause 18(1)(m)(ii)(B),

(2) Paragraph (e) of the definition "Canadian development expense" in subsection 66.2(5) of the Act is replaced by the following:

(e) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (b), (e) or (f) of the definition "Canadian resource property" in subsection 66(15), or any right to or interest in such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership),

(3) The portion of the description of F in the definition "cumulative Canadian development expense" in subsection 66.2(5) of

the Act before paragraph (a) is replaced by the following:

F is the total of all amounts each of which is an amount in respect of property described in paragraph (b), (e) or (f) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such a property, other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, (in this description referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

(4) Subsections (1) and (3) apply after December 20, 2002.

(5) Subsection (2) applies to taxation years that begin after 2006.

7. (1) Paragraph (a) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) of the Act is replaced by the following:

(a) notwithstanding paragraph 18(1)(m), the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (a), (c) or (d) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such property (other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership) or an amount paid or payable to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease, but not including any payment made to any of the persons referred to in subparagraph 18(1)(m)(i) for the preservation of a taxpayer's rights in respect of a Canadian resource property nor a payment (other than a net royalty payment referred to in this paragraph) to which paragraph 18(1)(m) applied because of clause 18(1)(m)(ii)(B),

(2) Paragraph (a) of the definition "Canadian oil and gas property expense" in subsection 66.4(5) of the Act is replaced by the following:

(a) the cost to the taxpayer of, including any payment for the preservation of a taxpayer's rights in respect of, any property described in paragraph (a), (c) or (d)

of the definition "Canadian resource property" in subsection 66(15), or any right to or interest in such property (other than a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership), or an amount paid to Her Majesty in right of the Province of Saskatchewan as a net royalty payment pursuant to a net royalty petroleum and natural gas lease that was in effect on March 31, 1977 to the extent that it can reasonably be regarded as a cost of acquiring the lease,

(3) The portion of the description of F in the definition "cumulative Canadian oil and gas property expense" in subsection 66.4(5) of the Act before paragraph (a) is replaced by the following:

F is the total of all amounts each of which is an amount in respect of property described in paragraph (a), (c) or (d) of the definition "Canadian resource property" in subsection 66(15) or any right to or interest in such a property, other than such a right or an interest that the taxpayer has by reason of being a beneficiary under a trust or a member of a partnership, (in this description referred to as "the particular property") disposed of by the taxpayer before that time equal to the amount, if any, by which

(4) Subsections (1) and (3) apply after December 20, 2002.

(5) Subsection (2) applies to taxation years that begin after 2006.

8. (1) Subsection 69(6) of the Act is replaced by the following:

Disposition of
petroleum, etc.

(6) An operator with respect to a natural accumulation of petroleum or natural gas in Canada, an oil or gas well in Canada or a mineral resource in Canada who at any time disposes of property, produced in the operation, that is petroleum, natural gas or related hydrocarbons, metal or minerals for no proceeds of disposition or for proceeds of disposition less than its fair market value at that time, is deemed to have received proceeds of disposition for the property equal to that fair market value if the disposition is to

(a) Her Majesty in right of Canada or of a province;

(b) an agent of Her Majesty in right of Canada or of a province; or

(c) a corporation, a commission or an association that is controlled by Her Majesty in right of Canada or of a province or by an agent of Her Majesty in right of Canada or of a province.

(2) Subsections 69(6) to (10) of the Act are repealed.

(3) Subsection (1) applies to dispositions that occur after December 20, 2002.

(4) Subsection (2) applies to taxation years that begin after 2006.

9. (1) Section 80.2 of the Act is repealed.

(2) Subsection (1) applies to taxation years that begin after 2006.

10. (1) Subparagraph 96(1)(d)(i) of the Act is replaced by the following:

(i) this Act were read without reference to section 34.1, subsection 59(1), paragraph 59(3.2)(c.1) and subsections 66.1(1), 66.2(1) and 66.4(1), and

(2) Subsection (1) applies to taxation years that begin after 2006.

11. (1) Subsection 104(29) of the Act is replaced by the following:

Amounts deemed payable to beneficiaries

(29) For the purposes of this section, an amount designated by a trust in its return of income for a taxation year throughout which it was resident in Canada is deemed to have become, in the proportions that the trust designates in that return of income, payable by the trust to particular beneficiaries under the trust in the year if

(a) the designated amount does not exceed the amount determined by the formula

$$(A - B) \times C/D$$

where

A is the total of all amounts each of which is

(i) an amount that is not deductible in computing the trust's income for the year, but that would be deductible in computing that income if this Act were read without reference to paragraph 18(1)(m),

(ii) an amount that is required by paragraph 12(1)(o) or by subsection 69(6) or (7) to be included in computing that income, or

(iii) an amount that is required to be included in computing that income because of an amount designated under this subsection by another trust,

B is the total of all amounts each of which is

(i) an amount that is deductible (otherwise than because of the membership of the trust in a partnership) under paragraph 20(1)(v.1) in computing the trust's income for the year, or

(ii) an amount that is not included in computing that income, but that would be included in computing that income if this Act were read without reference to section 80.2,

C is the total of all amounts each of which is a portion of the trust's income for the year computed without reference to the provisions of this Act (in this subsection referred to as the "trust-purpose income of the trust for the year") that

(i) was payable in the year to a beneficiary under the trust, or

(ii) was required by subsection 105(2) to be included in computing the income of a beneficiary under the trust, and

D is the trust-purpose income of the trust for the year; and

(b) the designated proportions are reasonable having regard to the portions of the trust-purpose income of the trust for the year that are included in computing the beneficiaries' incomes for the year.

(2) Subsection 104(29) of the Act is repealed.

(3) Subsection (1) applies to trust taxation years that end after December 20, 2002.

(4) Subsection (2) applies to trust taxation years that begin after 2006.

12. (1) Subparagraph (a)(iii) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is replaced by the following:

(iii) the corporation's taxable resource income for the year, and

(2) Paragraph (a) of the definition "full rate taxable income" in subsection 123.4(1) of the Act is amended by adding the word "and" at the end of subparagraph (ii) and by repealing subparagraph (iii).

(3) Subsection (1) applies to the 2003 and subsequent taxation years.

(4) Subsection (2) applies to taxation years that begin after 2006.

13. (1) The Act is amended by adding the following after section 125.1:

Definitions

125.11 (1) The following definitions apply in section 123.4 and this section.

"resource rate
reduction
percentage"
« *pourcentage
de réduction du
taux applicable
aux ressources*
»

"resource rate reduction percentage", of a corporation for a taxation year, is the total of

(a) that proportion of 1% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(b) that proportion of 2% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(c) that proportion of 3% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year,

(d) that proportion of 5% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year, and

(e) that proportion of 7% that the number of days in the taxation year that are after 2006 is of the number of days in the taxation year.

"taxable
resource
income"
« *revenu
imposable
provenant de
ressources* »

"taxable resource income", of a taxpayer for a taxation year, is the lesser of the taxpayer's taxable income for the taxation year and the amount determined by the formula

$$3(A/B) + C - D$$

where

A is the total of all amounts each of which is deducted by the taxpayer under paragraph 20(1)(v.1) in computing the taxpayer's income for the taxation year;

B is the percentage that is the total of

(a) that proportion of 100% that the number of days in the taxation year that are before 2003 is of the number of days in the taxation year,

(b) that proportion of 90% that the number of days in the taxation year that are in 2003 is of the number of days in the taxation year,

(c) that proportion of 75% that the number of days in the taxation year that are in 2004 is of the number of days in the taxation year,

(d) that proportion of 65% that the number of days in the taxation year that are in 2005 is of the number of days in the taxation year, and

(e) that proportion of 35% that the number of days in the taxation year that are in 2006 is of the number of days in the taxation year;

C is the total of all amounts included in computing the taxpayer's income for the taxation year under paragraph 59(3.2)(b) or (c); and

D is the total of all amounts deducted by the taxpayer under any of sections 65 to 66.7, other than subsections 66(4), 66.21(4) and 66.7(2) and (2.3), of this Act, and subsections 17(2) and (6) and section 29 of the *Income Tax Application Rules*, in computing the taxpayer's income for the taxation year.

Resource deduction

(2) There may be deducted from a corporation's tax otherwise payable under this Part for a taxation year the product obtained by multiplying the corporation's resource rate reduction percentage for the taxation year by the corporation's taxable resource income for the taxation year.

(2) Section 125.11 of the Act is repealed.

(3) Subsection (1) applies to the 2003 and subsequent taxation years except that, for those taxation years that begin before ANNOUNCEMENT DATE, the value of C in the formula in the definition "taxable resource income" in subsection 125.11(1) of the Act is deemed to be nil.

(4) Subsection (2) applies to taxation years that begin after 2006.

14. (1) Subparagraph 127(5)(a)(i) of the Act is replaced by the following:

(i) the taxpayer's investment tax credit at the end of the year in respect of property acquired before the end of the year, of the taxpayer's flow-through mining expenditure for the year or a preceding taxation year, of the taxpayer's pre-production mining expenditure for the year or a preceding taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of the year or at the end of a preceding taxation year, and

(2) Clause 127(5)(a)(ii)(A) of the Act is replaced by the following:

(A) the taxpayer's investment tax credit at the end of the year in respect of property acquired in a subsequent taxation year, of the taxpayer's flow-through mining expenditure for a subsequent taxation year, of the taxpayer's pre-production mining expenditure for a subsequent taxation year or of the taxpayer's SR&ED qualified expenditure pool at the end of a subsequent taxation year to the extent that an investment tax credit was not deductible under this subsection for the subsequent year, and

(3) The definition "investment tax credit" in subsection 127(9) of the Act is amended by adding the following after paragraph (a.2):

(a.3) where the taxpayer is a taxable Canadian corporation, the specified percentage of the taxpayer's pre-production mining expenditure for the year,

(4) Paragraph (c) of the definition "investment tax credit" in subsection 127(9) of the Act is replaced by the following:

(c) the total of all amounts each of which is an amount determined under any of paragraphs (a) to (b) in respect of the taxpayer for any of the 10 taxation years immediately preceding or the 3 taxation years immediately following the year,

(5) Paragraph (e.1) of the definition "investment tax credit" in subsection 127(9) of the Act is amended by striking out the word "or" at the end of subparagraph (iii), by replacing the word "and" at the end of subparagraph (iv) with the word "or" and by adding the following after subparagraph (iv):

(v) the amount of a pre-production mining expenditure of the taxpayer under paragraph (11.1)(c.3), and

(6) The definition "specified percentage" in subsection 127(9) of the Act is amended by striking out the word "and" at the end of paragraph (h), by adding the word "and" at the end of paragraph (i) and by adding the following after paragraph (i):

(j) in respect of a pre-production mining expenditure, if the expenditure was incurred

- (i) in 2003, 5%,
- (ii) in 2004, 7%, and
- (iii) after 2004, 10%;

(7) Subsection 127(9) of the Act is amended by adding the following in alphabetical order:

"pre-production
mining
expenditure"
« *dépense
minière
préparatoire* »

"pre-production mining expenditure", of a taxable Canadian corporation for a taxation year, means the total of all amounts each of which is an expenditure incurred after 2002 by the taxable Canadian corporation in the taxation year that

(a) would be an expense described in paragraph (f) or (g) of the definition "Canadian exploration expense" in subsection 66.1(6) if the expression "mineral resource" in that paragraph were defined to mean a mineral deposit from which the principal mineral to be extracted is diamond, a base or precious metal deposit, or a mineral deposit from which the principal mineral to be extracted is an industrial mineral that, when refined, results in a base or precious metal, and

(b) is not an expense that was renounced under subsection 66(12.6) to the taxable Canadian corporation;

(8) Subsection 127(11.1) of the Act is amended by striking out the word "and" at the end of paragraph (c.2) and by adding the following after that paragraph:

(c.3) the amount of a taxpayer's pre-production mining expenditure for a taxation year is deemed to be the amount of the taxpayer's pre-production mining expenditure for the year as otherwise determined less the amount of any government assistance or non-government assistance in respect of expenses included in determining the taxpayer's pre-production mining expenditure for the year that, at the time of the filing of the taxpayer's return of income for the year, the taxpayer has received, is entitled to receive or can reasonably be expected to receive; and

(9) Subsections (1) to (8) apply to the 2003 and subsequent

taxation years.

15. (1) Part XII of the Act is repealed.

(2) Subsection (1) applies to taxation years that begin after 2006.

16. (1) Paragraph (a) of the definition "carved-out income" in subsection 209(1) of the Act is replaced by the following:

(a) the person's income for the year attributable to the property computed under Part I on the assumption that in computing income no deduction was allowed under section 20, subdivision e of Division B of Part I or section 104,

(2) Subsection (1) applies to taxation years that begin after 2006.

17. (1) Paragraph 219(1)(c) of the Act is repealed.

(2) Paragraph 219(1)(e) of the Act is replaced by the following:

(e) the total of all amounts each of which is an amount in respect of a grant or credit that

(i) can reasonably be considered to have been received by the corporation in the year as a reimbursement or repayment of, or as indemnification or compensation for, an amount deducted because of paragraph (j), as it read in its application to the 1995 taxation year, in computing the amount determined under this subsection for a preceding taxation year that began before 1996, and

(ii) was not included in computing the corporation's base amount for any taxation year,

(3) Subsection 219(1) of the Act is amended by adding the word "and" at the end of paragraph (j) and by repealing paragraph (k).

(4) Subsections (1) to (3) apply to taxation years that begin after 2006.

18. (1) Paragraph (b) of the definition "gross revenue" in subsection 248(1) of the Act is replaced by the following:

(b) all amounts (other than amounts referred to in paragraph (a)) included in computing the taxpayer's income from a business or property for the year because of subsection 12(3) or (4) or section 12.2 of this Act or

subsection 12(8) of the *Income Tax Act*, chapter 148 of the Revised Statutes of Canada, 1952.

(2) Subsection (1) applies to taxation years that begin after 2006.