

Canada's Budget 2000

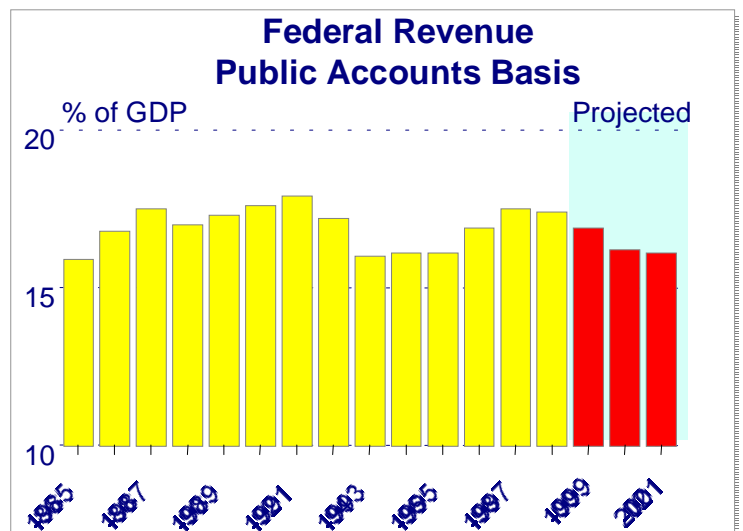
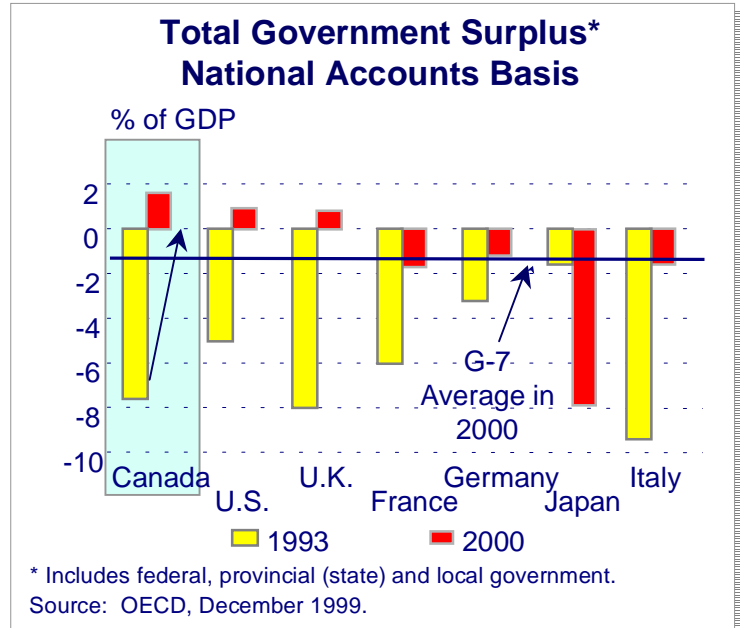
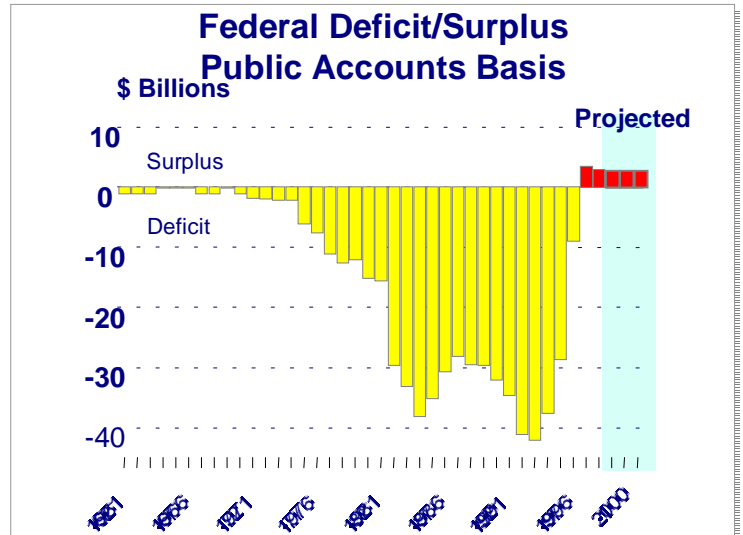
Five Changes Investors Should Know About

1. The deficit-free era

- The federal government has recorded budget surpluses in each of the last two fiscal years. Moreover, a balanced budget or better is expected over the next three years, marking five straight years of budgets in the black.
- Program spending continues to shrink as a share of the economy — it is forecast to fall to 11.6% of GDP in 2000-01 — the lowest ratio in over 50 years.
- The OECD predicts that Canada, the U.S. and the U.K. will be the only G-7 countries to be running surpluses this year.
- From an international perspective, Canada's fiscal turnaround is tops among the G-7 countries.

2. A five-year plan to reduce personal taxes

- In addition to lower corporate taxes, Budget 2000 also cuts personal income taxes.
- The middle income tax rate will drop from 26% to 23% by 2004, beginning with a 2-point reduction in July 2000. The budget also raises the floor for the middle and top income tax rates.
- Moreover, full indexation of the personal income tax system has been restored immediately to protect taxpayers against inflation.
- Measures announced in the federal budget will reduce personal income taxes by at least 15% annually by 2004-05.
- The combined cuts in corporate and personal income taxes announced in this budget are expected to lower tax revenues from 16.9% of GDP in 1999-2000 to 16.1% by 2001-02.

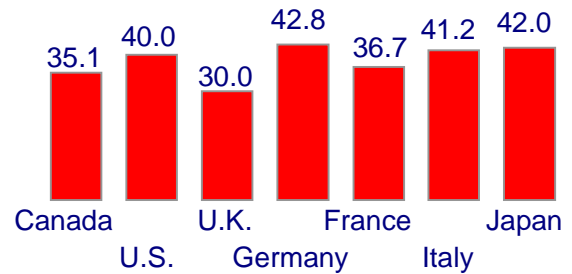


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3. A five-year plan to reduce corporate taxes

- The recent federal budget set out a five-year tax reduction plan providing cumulative tax relief of at least \$58 billion over the next five years, including a substantial reduction in corporate tax rates.
- Effective tax rates for manufacturing and the resource sector are already internationally competitive. For example, Canadian corporate tax rates in manufacturing are currently below those in the U.S.
- For service industries, the budget will reduce the corporate tax rate from 28% to 21% within five years, competitive with the U.S.
- This cut in corporate taxes will be fastest for small business — the full seven point reduction for income between \$200,000 and \$300,000 will be effective January 1, 2001

Statutory Corporate Tax Rate Manufacturing and Processing Activities

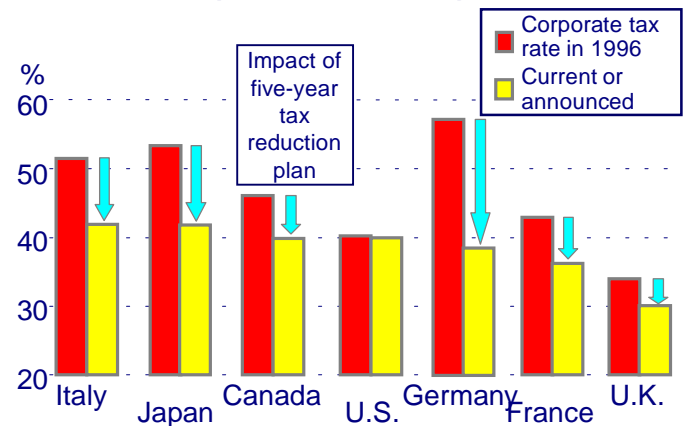


Source: KPMG – Corporate Tax Rates Survey, January 2000

4. Enhancing Canada's Quality of Life Advantage

- Budget 2000 also added a further \$2.5 billion to the Canada Health and Social Transfer to help provinces fund post-secondary education and health care.
- The federal government has also increased its support for families with children. This includes a \$2.5 billion increase in the Canada Child Tax Benefit, and a doubling of the length of maternity and paternity leave to one year.
- These measures are expected to further enhance the Canadian quality of life advantage, and help maintain our ranking by the United Nations' Human Development Index as the best nation in the world in which to live.

Statutory Corporate Tax Rate (Service Sector)



Source: Budget 2000, Department of Finance

5. Encouraging entrepreneurship and risk taking

- Budget 2000 announced several measures to encourage risk-taking and entrepreneurship:
 - ✓ Capitals gains on shares acquired under qualifying stock options will now be taxed when shares are sold rather than when options are exercised.
 - ✓ In addition, the capital gains inclusion rate will be lowered immediately from three-quarters to two-thirds. This is the amount of capital gains from stock market investments that are considered part of taxable income.
 - ✓ Finally, the budget will now allow for the tax-free rollover of capital gains on investments from one small business to another (to a maximum of \$500,000).

Human Development Index

