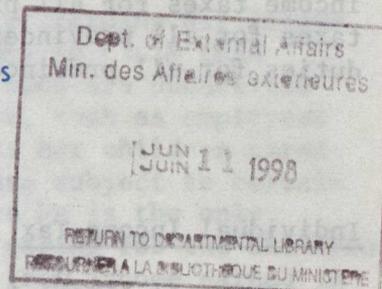


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TAXATION IN CANADA

(Prepared by the Tax Policy Branch,
Department of Finance, Ottawa.)

Taxes are imposed in Canada by the Federal Government, by the provincial governments and by municipalities. The Government of Canada has the right to raise money "by any mode or system of taxation", while the provincial legislatures are restricted to "direct taxation within the province in order to the raising of a revenue for provincial purposes". Thus the provinces have a right to use only the field of direct taxation and the Federal Government is not subject to any constitutional restriction in matters of taxation. Municipalities derive their incorporation with its associated powers, fiscal and otherwise, from the provincial governments concerned. Thus municipalities are also limited to direct taxation.

A direct tax is generally recognized as one "which is demanded from the very person who it is intended or desired should pay it". This conception has limited the provincial governments to the imposition of income tax, retail sales tax, succession duties and an assortment of other direct levies. In turn, municipalities, acting under provincial legislation, tax real estate, water-consumption and places of business. The Federal Government levies taxes on income, excise taxes, excise and customs duties and a sales tax.

Starting in 1941, a series of federal-provincial tax agreements was concluded to promote the orderly imposition of direct taxes. The duration of each agreement was normally five years. Under the earlier agreements, the participating provinces undertook in return for compensation not to use, or permit their municipalities to use, certain of the direct taxes. Under more recent arrangements, the federal personal and corporation income tax otherwise payable in all provinces and the estate tax otherwise payable in three provinces was abated by certain percentages to make room for provincial levies.

Federal tax reform amendments passed in 1971, which became effective for the most part from the beginning of 1972, included a new personal income tax rate-structure which was not designed to be abated in the previous way. At the time, the federal estate tax was terminated. As a result, the arrangement under which federal taxes are abated has general application now only for the corporation income tax. All provinces impose taxes on the income of individuals and corporations and all but Alberta impose taxes on property passing at death. As part of the current fiscal arrangements, the Federal Government has entered into tax-collection agreements under which it collects provincial personal

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