

and materials consumed or expended in production are also exempt. The same applies to equipment acquired by manufacturers or producers to prevent or to reduce water, soil or air pollution resulting from their manufacturing operations.

A number of items are exempt when purchased by municipalities. These and other exemptions are set forth in the various schedules to the Excise Tax Act.

The Excise Tax Act also imposes a number of special excise taxes in addition to the general sales tax and, where these are *ad valorem* taxes, they are levied on the same selling price or duty-paid value as the general sales tax. The main items subject to these special excise taxes are cigarettes, cigars, pipe tobacco, wine and jewellery.

Excise duties

The Excise Act levies taxes (referred to as excise duties) upon alcohol, alcoholic beverages (other than wines) and tobacco products. These duties are not levied on imports, but the customs tariff applies special duties to these products equivalent to the excise duties levied on the products manufactured in Canada. Exported goods are not subject to excise duties.

Customs duties

Many goods imported by Canada are subject to customs duties at various rates, as provided in the customs tariff.

The Canadian tariff consists of three sets of tariffs: British preferential, most-favoured-nation and general. The British preferential rates are, with some exceptions, the lowest rates. They are applied to commodities shipped directly to Canada from Commonwealth countries. However, there are a few rates below the British preferential duty that apply to specified goods imported from designated Commonwealth countries. In addition, new legislation will provide for reduced rates of duties on imports from developing countries. This legislation has not yet been proclaimed.

The most-favoured-nation rates apply to goods from countries that have been accorded tariff treatment more favourable than the general tariff but are not entitled to the British preferential tariff. These rates cover almost all non-Commonwealth trade. The most important agreement providing for the exchange of most-favoured-nation tariff treatment is the General Agreement on Tariffs and Trade.

The general tariff applies to imports from countries not entitled to either the British preferential or most-favoured-nation treatment. Few countries are in this category.