

materials purchased by public hospitals and certain welfare institutions. The products of farms, forests, mines and fisheries are, to a large extent, excluded, as well as equipment used in farming, lumbering, mining and fishing. Machinery and equipment used directly in production 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 and customs 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 ex-

cise duties levied on the products manufactured in Canada.

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

The Canadian tariff structure consists of four sets of tariff rates—British preferential, most-favoured-nation, general preferential and general. British preferential tariff rates are applied to commodities imported from all British Commonwealth countries, excluding Hong Kong. Most-favoured-nation rates are generally higher than British preferential rates, and are applied to nations with which Canada has special trade agreements. The most important of these is the General Agreement on Tariffs and Trade (GATT).

The general preferential tariff is designed to allow lower rates of duty on goods imported from developing countries. In general, the rate is either the British preferential rate or the most-favoured-nation rate minus one third, whichever is the lesser. General tariffs are normal tariff rates to countries with which Canada has made no trade agreements.

There are provisions for relief from duty on imports of materials used in the manufacture of products later exported. The purpose of this relief or "drawback of duty" is to help Canadian manufacturers compete with foreign manufacturers of similar goods in world markets. There is a second class of drawbacks known as "home