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## TAXATION IN CANADA

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

Canada is a federal state with a central government and ten provincial governments. In 1867 the principal colonies of the British Crown in North America united to form the nucleus of a new nation and the British North America Act of that year became its written constitution. This statute created a central government with certain powers, while continuing the existence of political subdivisions, called provinces, with powers of their own.

Under the British North America Act the Parliament of Canada has the right to raise money "by any mode or system of direct 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 the right to use only the field of direct taxation, while the Federal Government is not restricted in any way in matters of taxation. The British North America Act also empowered the provincial legislatures to make laws regarding "municipal institutions in the province". This means that municipalities derive their incorporation with its associated powers, fiscal and otherwise, from the provincial government concerned. Thus municipalities are also limited to direct taxation.

A direct tax 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 the guidance of provincial legislation, tax real estate, water consumption and places of business. The Federal Government levies taxes on income, on gifts and on the estates of deceased persons, and excise taxes, excise and customs duties and a sales tax.

### Federal-Provincial Arrangements

Starting in 1941, a series of federal-provincial tax agreements were 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 direct taxes. Under the present

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