

Special Refundable Tax on the Cash Profits of Corporations*

For economic stabilization purposes, the 1966 Budget announced a temporary tax of 5 per cent on the cash profits of corporations payable monthly over an 18-month period beginning in May 1966. The amounts collected under the measure will be repaid with interest at 5 per cent after an interval of 18 to 36 months from receipt. The monthly payments are to be made on an estimated base computed by reference to the present or immediately preceding taxation year, subject to adjustment at the end of the year.

The base for the tax is the taxable income of the corporation less federal and provincial taxes payable thereon, less a basic exemption of \$30,000, less principal payments due and made on debt of the corporation having original term of three years or more and having been contracted for under written arrangements in existence on March 29, 1966 (this deduction is subject to certain limits), plus certain amounts which were deducted in arriving at taxable income but that do not deplete the cash position of the corporation (such as capital-cost allowances and depletion).

Taxation of Non-Residents

A non-resident is liable for payment of income tax if he was employed or was carrying on business in Canada during a taxation year. The expression "carrying on business in Canada" includes: (1) maintaining a permanent establishment in Canada; (2) processing goods even partially in Canada; and (3) entering into contracts in Canada.

The taxable income of a non-resident individual derived from carrying on business in Canada or from employment in Canada is taxed under the same schedule of rates as Canadian resident individuals, and non-resident corporations deriving income from carrying on business in Canada are taxed on their taxable income attributable to operations in Canada at the same rates as Canadian resident corporations. (Tax treaties with some countries provide certain exemptions from tax for remuneration for services performed in Canada by residents or employees of these countries. They also prohibit Canada taxing profits of a non-resident enterprise unless that enterprise has a permanent establishment in Canada.)

Furthermore, the Income Tax Act provides for a tax at the rate of 15 per cent on certain forms of income going from Canada to non-resident persons. It applies to interest (other than interest on government bonds issued after April 15, 1966), dividends, rentals, royalties, income from a trust or estate and alimony. This tax applies whether the income goes to non-resident individuals or corporations. The rate on royalties from motion picture films is only 10 per cent. The standard rate of 15 per cent is also reduced to 10 per cent in the case of dividends paid by a company that has a degree of Canadian ownership.** This non-resident tax is withheld at the source by the Canadian payer. Non-residents who receive only this kind of income from Canada do not file returns in Canada.

* This tax is also payable on business income and rental income of trusts.

** For definition of "degree of Canadian ownership" see section on corporation income tax.