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TAXATION IN CANADA

(Prepared in the Information Services, Department of Finance, Ottawa.)

Of the three levels of government in Canada, only the Federal Government has unrestricted power to levy all types of tax. The British North America Act gives the Federal Government the right to raise money "by any mode or system of taxation". Provinces and their respective municipalities, on the other hand, are restricted to direct taxation — that is, a levy on the very person who is expected to pay it. This conception has limited the provinces to the imposition of income taxes, retail sales taxes, succession duties and an assortment of other direct levies. Municipalities, acting under provincial legislation, impose a levy on real property, business premises and various service charges such as water taxes and local improvement taxes.

The paragraphs that follow take a close look at the beginnings of taxation in Canada as well as the taxes each level of government levies and their impact on individuals and corporations.

The Federal Government did not enter the field of direct taxation until 1917, but the history of taxes in Canada extends well back into the nineteenth century. Indeed, over 100 years ago, Ontario municipalities levied personal income taxes and in 1866 the Province of Ontario introduced legislation requiring all its municipalities to impose personal income taxes. Ten years later, British Columbia followed suit, and in 1901 extended its legislation to tax corporate profits. The Federal Government, on the other hand, levied only customs and excise duties.

In 1916, when demands for additional revenue to finance the First World War exceeded the Federal Government's existing revenue sources, the Finance Minister of the time, Sir Thomas White, introduced a business profits tax. The tax affected corporations only if their profits exceeded a stated percentage of their invested capital. While this levy was not an income tax as we know it today, it was nevertheless a milestone in the history of the Canadian tax system, and it paved the way for subsequent changes in the Government's attitude towards new sources of revenue. Acting once again to finance the war effort, Sir Thomas introduced legislation in July 1917 calling for the adoption of a

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