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, dividends, rentals, royalties, income from trusts or estates 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.*

The non-resident tax is withheld at the source by the Canadian payer. It is an impersonal tax levied without regard to the status or other income of the non-resident recipient. Non-residents who receive only this kind of income from Canada do not file returns in Canada.

Special Tax on Branch Businesses

Profits earned in Canada by a non-resident corporation carrying on business through a branch or permanent establishment in Canada are subject to an additional tax of 15 per cent. This tax is imposed on profits attributable to the branch after deducting Canadian federal and provincial income taxes and an allowance in respect of the net increase in capital investment in property in Canada.

Gift Tax

The Income Tax Act levies a tax on gifts. The rates range from 10 per cent on an aggregate taxable value of $5,000 or under to 28 per cent on an aggregate taxable value of over $1,000,000. Exemptions include complete exemption of gifts of $1,000 or less and a general deduction of $4,000 from the aggregate taxable value of gifts in the year.

Estate Tax

This tax applies to property passing, or deemed to pass, at death. All the property of persons who were domiciled in Canada before their death must be taken into consideration, no matter where that property is situated; for persons dying domiciled outside Canada, only their property situated in Canada is subject to tax.

In computing the tax of a Canadian domiciliary, the value of the whole estate is first determined. Once the aggregate value has been determined, estate debts and certain expenses may be deducted. From the resulting "aggregate net value" there may be deducted the amount of a basic exemption, which is increased where the decedent leaves a widow or dependent child, and also the amount of any charitable bequests to charitable organizations in Canada. The amount left after these deductions is the "aggregate taxable value", to which is applied the tax rates. From the tax so calculated may be deducted (1) a tax abatement in respect of property situated in a province that levies a succession duty, (2) a credit for gift tax paid on gifts made within three years of death (the value of which must be included in the aggregate net value of the estate), and (3) a credit for foreign taxes.

No estate valued at less than $50,000 is subject to estate tax. This $50,000 is not an exemption but the starting point for tax. The estate tax must not reduce the value of an estate after tax to less than $50,000. The basic deductible exemption which applies to all estates of Canadian domiciliaries is $40,000. This basic exemption of $40,000 is increased to $60,000 in respect of a deceased male survived by a spouse, or in respect of a deceased female survived by an incapacitated spouse and a dependent child. In both cases, there is an additional exemption of $10,000 for each surviving dependent child (i.e., under 21). Finally, the basic exemption of $40,000 is increased by $15,000 for every surviving dependent child made an orphan by the death of the deceased.

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