



CANADA

## REFERENCE PAPERS

INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

OTTAWA - CANADA

No. 105  
(RevisedDecember 1963) (Prepared by the Taxation Division,  
Department of Finance, Ottawa)TAXATION IN CANADAIntroduction

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 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 a right to share only in 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 the municipalities derive their incorporation, with its associated powers, fiscal and otherwise, from the provincial governments concerned. Thus, from a practical standpoint, municipalities are also limited to direct taxation.

A direct tax is generally recognized as one "which is demanded from the very person who it is intended or desired should pay it". In essence, 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, places of business and, in some cases, retail sales. The Federal Government levies direct taxes on income, on gifts, and on the estates of deceased persons, and indirect taxes such as excise taxes, excise and customs duties, and a sales tax.

The increasing use by both the Federal and the provincial governments of their rights in the field of direct taxation in the 1930's resulted in uneconomic duplication and some severe tax levies. Starting in 1941, a series of tax agreements was concluded between the Federal and the provincial governments to promote the orderly imposition of direct taxes. The duration of each agreement was normally five years. Under these agreements, the participating provinces undertook in return for compensation not to use, or permit their municipalities to use, certain of the direct taxes. Under the last two agreements the federal income tax and death tax otherwise payable in non-participating provinces were abated by a fixed percentage to make room for provincial levies.

The current agreement became operative on April 1, 1962, and will run until March 31, 1967. Basically, it entails a partial federal withdrawal from the field of direct taxation and the re-entry of all provinces in the vacated area. The Federal Government reduces its personal income tax otherwise payable on income earned in a province, and on income received by a resident of a province, by the following percentages:

16% in 1962  
17% in 1963  
18% in 1964  
19% in 1965  
20% in 1966.

Also, the Federal Government reduces its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 per cent of taxable income earned in any province except Quebec and 10 per cent of taxable income earned in Quebec. The additional 1 per cent reduction in respect of taxable income earned in the Province of Quebec is to compensate for the additional tax levied by the Province on corporation income to provide grants to universities. These provincial grants replace federal grants, which in other provinces are paid to the universities by the Federal Government through the Canadian Universities Foundation. Finally, the Federal Government abates the federal estate tax otherwise payable by 50 per cent in respect of property situated in a province which levies its own death tax. Only Ontario, Quebec and British Columbia at present levy death taxes in the form of succession duties.

These reductions in federal income tax and estate tax under the terms of the 1962-67 fiscal arrangements do not apply to the Yukon or the Northwest Territories or to income earned outside Canada. The Yukon and Northwest Territories do not impose income taxes or death taxes.

The provincial tax rates are not restricted to the extent of the federal withdrawal. The constitutional position of the provinces permits them unlimited use of direct taxes for the raising of revenue for provincial purposes. However, in all but four provinces (Ontario, Quebec, Manitoba and Saskatchewan) the provincial rates of income tax coincide with the amount of the federal abatement.

As part of the 1962-67 fiscal arrangements, the Federal Government has entered into tax-collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except Ontario and Quebec.

### Federal Taxes

#### Individual Income Tax

Every individual who is resident in Canada at any time during a year is liable for the payment of income tax for that year. Every non-resident individual who is employed or carries on business in Canada during a year is required to pay tax on the part of his income earned in Canada. Canadian taxation practice is based on a large extent on the British experience. This is reflected particularly in the fact that taxation is on the basis of residence rather than citizenship, and in the tax freedom for capital gains. The term "residence" is difficult to define simply but, generally speaking, it is taken to be the place where a person resides or where he maintains a dwelling ready at all times for his use. There are also extensions of the meaning of "Canadian resident" to include

a person who has sojourned in Canada for an aggregate period of 183 days in a taxation year, or a person who was during the year a member of the armed forces of Canada, or an ambassador, a high commissioner, or an officer or servant of Canada or of any one of its provinces, or the spouse or dependent child of any such person.

The Canadian tax law uses the conceptions "income" and "taxable income". The income of a resident of Canada for a taxation year comprises his revenues from all sources inside or outside Canada and includes income for the year from all businesses, property, offices and employments. It does not include capital gains unless they arise out of the conduct of a business or as a result of an adventure in the nature of trade.

In computing his income for a taxation year, an individual must include all dividends, fees, annuities, pension benefits, allowances, interest, alimony, maintenance payments and other miscellaneous sources of income. On the other hand, war-service disability pensions paid by Canada or an ally of Her Majesty at the time of the war service, unemployment insurance benefits, compensation in respect of an injury or death paid under a Workmen's Compensation Act of a province and Family Allowances do not have to be included in the computation of income.

In computing his income, an individual who is carrying on business may deduct business expenses including depreciation (called capital-cost allowances), interest on borrowed money, reserves for doubtful debts, contributions to pension plans or deferred profit-sharing plans for his employees, bad debts, and expenses incurred for scientific research. In general, no deductions are allowed in computing income from salary and wages, although there are exceptions. These exceptions include travelling expenses of employees who have to travel as they perform their work (such as employees on trains), union dues, alimony payments, and contributions to registered pension plans. Individuals may deduct, within limits, amounts set aside to provide a future income under registered retirement savings plans. Students in full-time attendance at a university or other educational institution in a course at a post-secondary-school level may deduct their tuition fees in computing their income.

Having computed his income, the individual calculates his taxable income by deducting certain exemptions and deductions. These exemptions and deductions are as follows:

For single status, an exemption of	\$1,000
For married status, an exemption of	\$2,000
For dependent children eligible to receive Family Allowance*	\$ 300 a child
For other dependants (as defined in the law)	\$ 550 a dependant
Where taxpayer is over 65 years of age	additional \$500
Where taxpayer is blind or confined for the whole of the taxation year to a bed or a wheelchair	additional \$500
Charitable donations	up to 10 per cent of income
Medical expenses	in excess of 3 per cent of income

\* Family Allowances are monthly welfare payments by the Federal Government to the parents or guardians of children under 16 years of age. The allowance is \$6 for each child under 10 years of age and \$8 for each child between the ages of 10 and 16. These allowances are not subject to income tax.

In lieu of claiming deductions for charitable donations, medical expenses and membership dues in trade unions or professional societies, an individual may claim a standard deduction of \$100.

As already stated, an individual who is resident in Canada for the whole year is taxed on his income from both inside and outside Canada. An individual who is not resident in Canada at any time during the year but who carries on business in Canada or who earns salary or wages in Canada is taxed only on the income earned in Canada. In computing taxable income earned in Canada such a non-resident individual is allowed to deduct that part of the exemptions and deductions that may reasonably be attributed to the income earned in Canada. (A non-resident who derives investment income from Canada is taxed in a different way described under a separate heading.) An individual who ceases to be a resident of Canada during the year or who becomes a resident during the year so that he is resident for only part of the year will be subject to income tax in Canada on only that part of his income for the year received while he is resident in Canada. Under these circumstances, the deductions from income permitted for determining taxable income will be the amount which may reasonably be considered as applicable to the period during which he is resident in Canada.

A progressive schedule of rates is applied to taxable income. These rates begin at 11 per cent on the first \$1,000 of taxable income and increase to 80 per cent on taxable income in excess of \$400,000. In addition, an old-age security tax is levied on taxable income at the rate of 3 per cent, with a maximum of \$90 reached at the level of \$3,000.

In calculating the amount of his income tax, an individual is allowed tax credits under three main headings:

a) Dividend tax credit:

In order partially to eliminate the double taxation of corporate profits and to encourage participation in the ownership of Canadian companies, Canadian resident individuals are allowed to deduct from their tax an amount equal to 20 per cent of the net dividends they receive from Canadian taxable companies.

b) Foreign tax credit:

Foreign taxes paid on income from foreign sources may be credited against Canadian income tax, but the credit may not exceed the proportion of Canadian tax relative to such income.

c) Abatement under federal-provincial arrangements:

In 1963 the federal personal income tax otherwise payable on income of a resident of a province and on income earned in a province was reduced by 17 per cent. This abatement will increase by one percentage point a year until it becomes 20 per cent in 1966.

To a very large extent individual income tax is payable as the income is earned. Taxpayers in receipt of salary or wages have tax deducted from their pay by their employer and in this way pay nearly 100 per cent of their tax liability during the calendar year. The balance of the tax, if any, is payable at the time of filing the tax return before April 30, in the following year. People with more than 25 per cent of their income from sources other than salary or wages must pay tax by quarterly instalments throughout the year. Here again returns must be filed before April 30, in the following calendar year.

The following table shows what taxpayers pay at various levels of income:

TABLE A

	<u>Income</u>	<u>Income Tax</u>	<u>O.A.S. Tax</u>
Single taxpayer - no dependants	\$ 1,200	11	3
	1,500	44	12
	2,000	99	27
	2,500	166	42
	3,000	236	57
	5,000	591	90
	10,000	1,840	90
	20,000	5,825	90
	50,000	20,965	90
	100,000	50,855	90
Married taxpayer - no dependants	2,200	11	3
	2,500	44	12
	3,000	99	27
	5,000	403	87
	10,000	1,544	90
	20,000	5,375	90
	50,000	20,415	90
	100,000	50,205	90
Married taxpayer - two children eligible for family allowances	2,800	11	3
	3,000	33	9
	5,000	301	69
	10,000	1,388	90
	20,000	5,105	90
	50,000	20,085	90
	100,000	49,815	90

In calculating these taxes, it has been assumed that all taxpayers take the standard deduction of \$100. No allowance has been made for the 20 per cent dividend tax credit.

In calculating the taxes shown for a married taxpayer with two children eligible for Family Allowances, a deduction of \$300 has been allowed for each child.

The income taxes shown above are abated by 17 per cent in all provinces. In all provinces except Quebec, Manitoba and Saskatchewan, the provincial tax is the same as the federal abatement. Therefore, in these provinces, the taxes shown above are the combined federal and provincial taxes. In Quebec the provincial tax does not coincide with the federal abatement. In Manitoba and Saskatchewan the provincial tax exceeds the abatement by 6 percentage points.

It was announced in the 1963 Budget Speech that taxpayers who established a manufacturing or processing business in a designated area of slower growth during a two-year period commencing on the date of enactment of the 1963 Income Tax Act Amending Bill would be eligible for a three-year exemption from income tax. As of July 1963, this proposed change had not been brought into force by legislation nor had any area been designated.

Corporation Income Tax

The Income Tax Act levies a tax upon the income from anywhere in the world of corporations resident in Canada and upon the income attributable to operations in Canada of non-resident corporations carrying on business in Canada.

In computing their income, corporations may deduct operating expenses, including municipal real-estate taxes, reserves for doubtful debts, bad debts, and interest on borrowed money. They may not deduct provincial income taxes other than provincial taxes on income derived from mining operations. (For this purpose "income from mining operations" is specially defined.)

Regulations covering capital-cost allowances (depreciation) permit taxpayers to deduct over a period of years the actual cost of all depreciable property. The yearly deductions of capital-cost allowances are computed on the diminishing-balance principle. (Taxpayers engaged in farming and fishing may choose between this and the straight-line method.) Published regulations establish a number of classes of property and maximum rates. There is provision for recapture of any amount allowed in excess of the ultimate net capital-cost of any asset.

Certain accelerated depreciation provisions are available to taxpayers in certain circumstances and for a limited period. Businesses established in surplus-manpower areas (specific areas officially designed as such) which produce goods new to these areas or businesses engaged in the production of goods that are new to Canada are allowed to claim capital-cost allowances at double the normal rates for one year in respect of depreciable property acquired for the purpose of producing these new goods. This special incentive is available until January 1, 1964. A modernization allowance in the form of a 50 per cent increase in the first year in the rates of capital-cost allowance can also be claimed by a business in respect of expenditures on new capital assets that exceed its expenditures on capital assets in the previous year or its average expenditures on capital assets in the three previous years. This special allowance is available in respect of all depreciable assets eligible for depreciation by the diminishing balance principle which are acquired before April 1, 1964. The 1963 Budget introduced a new incentive measure, which, as of July 1963, had not yet been brought into force by legislation. Straight-line depreciation at a rate not exceeding 50 per cent will be granted in respect of certain new depreciable assets (machinery and equipment that would otherwise fall in Class 8 of the Income Tax Regulations) acquired in a 24-month period commencing on June 14, 1963, for use in manufacturing or processing businesses by individuals resident in Canada or by companies resident in Canada that have a degree of Canadian ownership and control. To have a degree of Canadian ownership and control, a company must (a) be a resident of Canada, (b) have 25 per cent of its voting shares beneficially owned by one or more individuals resident in Canada, one or more corporations controlled in Canada, or a combination thereof or have its voting shares listed on a stock exchange in Canada and have no more than 75 per cent of its voting shares beneficially owned by a non-resident person alone or with associated persons, (c) ensure that at least 25 per cent of its directors are resident in Canada (this requirement will not apply until 1965). For manufacturing or processing businesses in designated areas of slower growth, there is no requirement that they have a degree of Canadian ownership and control to qualify for this 50 per cent straight-line depreciation rate. Capital-cost allowances at the accelerated rate of 20 per cent on a straight-line basis are also proposed in respect of new buildings acquired in designated areas of slower growth in the period of 24 months commencing on the date the legislation proposed in the 1963 Budget is enacted.

Expenditures on scientific research by corporations qualify for special tax treatment. Generally speaking, all expenditures on scientific research in Canada may be written off for tax purposes in the year when incurred. In addition, corporations are permitted to deduct in computing income for tax purposes 150 per cent of their increased expenditures on scientific research.

Taxpayers operating mines, oil wells and gas wells are allowed a depletion allowance, usually computed as a percentage of profits derived from mineral, oil or gas production, which continues as long as the mine or well is in operation. This allowance is in addition to capital-cost allowances on buildings, machinery and similar depreciable assets used by the taxpayer. Taxpayers operating timber limits receive an annual allowance sometimes called a depletion allowance. This is a rateable proportion of the amount invested in the limit and is based on the amount of timber cut in the year. When the amount invested in the limit has been recovered, no further allowance is given.

In computing taxable income, corporations may deduct dividends received from other Canadian taxpaying corporations and also from foreign corporations in which the Canadian corporation has at least 25 per cent stock ownership. Business losses may be carried back one year or forward five years and deducted in computing taxable income. Corporations may also deduct donations to charitable organizations up to a maximum of 10 per cent of their income.

The general rates of tax on corporate taxable income are 18 per cent on the first \$35,000 of taxable income plus 47 per cent on taxable income in excess of \$35,000. Corporations deriving more than half their gross revenue from the sale of electrical energy, gas or steam pay tax on their taxable income from such sources at the rate of 18 per cent on the first \$35,000 of taxable income plus 45 per cent on taxable income in excess of \$35,000. Corporations that qualify as investment companies pay a tax of 18 per cent on their taxable income. In addition to these rates, all corporations pay an old-age security tax of 3 per cent of taxable income, bringing their rates up to 21 per cent and 50 per cent (21 per cent and 48 per cent for the public utility companies and 21 per cent for investment companies).

In calculating the amount of their income tax, corporations are allowed tax credits under three headings:

- (1) Foreign tax credit - foreign taxes paid on income from foreign sources may be credited against Canadian income tax, but the credit may not exceed the proportion of Canadian tax relative to such income.
- (2) Abatement under federal-provincial fiscal arrangements - corporations may deduct from their federal tax otherwise payable a tax abatement equal to a fixed percentage of their taxable income attributable to operations in a Canadian province. This abatement is to make room for the provincial income tax levied by each Canadian province. The amount of the abatement is 9 per cent of taxable income attributable to operations in any province except Quebec and 10 per cent of taxable income attributable to operations in Quebec.
- (3) Provincial logging tax - corporations may deduct from their federal tax otherwise payable an amount equal to 2/3 of a provincial tax on income from logging operations not exceeding 2/3 of 10 per cent of the corporation's income from logging operations in the province (at present only Ontario and British Columbia impose logging taxes).

A special tax incentive based on increased sales is available to corporations engaged in manufacturing or processing. This concession consists of cancellation of 50 per cent of the federal income tax on the first \$50,000 of taxable income arising from increased sales and cancellation of 25 per cent of the tax on any additional taxable income arising from increased sales. It was announced in the 1963 budget that this incentive would not be available for the 1964 and subsequent taxation years.

It was announced in the 1963 Budget Speech that new manufacturing and processing businesses established in designated areas of slower growth during a two-year period commencing from the date of enactment of the 1963 Income Tax Act Amending Bill would be eligible for a three-year exemption from income tax. As of July 1963, this proposed change had not been brought into force by legislation nor had any area been designated.

Corporations are required to pay their tax (combined income and old-age security tax) in monthly instalments but the period during which they pay tax for a taxation year does not coincide exactly with that taxation year. Until 1963, corporations did not start to pay taxes for a taxation year before the seventh month of that taxation year. In each of the last six months of their taxation year and the following three, they paid a twelfth of their estimated tax for the year (such estimate being based either on the taxable income of the previous year or the estimated taxable income of the year in progress). In each of the following two months they paid a third of the estimated balance of the tax computed by reference to the income of the taxation year. In the sixth month following the end of their taxation year, the final return had to be filed and the remainder of the tax paid for the year. The 1963 Budget introduced a new set of rules for the payment of corporation income tax which will not become fully operative until early 1966. These rules will require that corporations begin to pay their tax for a taxation year in the fifth month rather than in the seventh month of that taxation year. In each of the last eight months of their taxation year and the following two, they will pay a twelfth of their estimated tax for the year (such estimate will continue to be based on the taxable income of the previous year or the estimated taxable income of the year in progress). In each of the following two months they will pay half the estimated balance of the tax computed by reference to the income of the taxation year. In the sixth month following the end of their taxation year, the final return will have to be filed. In order to move on to the new pattern, it will be necessary for corporations to pay their tax for each of two taxation years within a payment period of 11 months. The first taxation year to be so compressed within 11 months for the purpose of moving forward the payment period of corporation income tax will be the first one to end after November 30, 1963. The second will be the immediately succeeding one. As of July 1963, this proposed change had not been brought into force by legislation.

#### 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.)

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 a trust or estate and alimony. This tax applies whether the income goes to non-resident individuals or corporations. The rate of royalties on motion-picture films is only 10 per cent. The 1963 Budget announced that the 15 per cent rate on dividends paid by companies resident in Canada to non-resident persons would be reduced from 15 per cent to 10 per cent. When paid by a company that has a degree of Canadian ownership and control (for definition of "degree of Canadian ownership and control", see the previous section on corporation income tax). This change would be effective for dividends paid after June 13, 1963. At the same time, the 1963 Budget announced that the 15 per cent rate on dividends paid by companies resident in Canada to non-resident persons would be increased to 20 per cent effective from January 1, 1965, when paid by a company that has not a degree of Canadian ownership and control. As of July 1963, these proposed changes had not been translated into legislation.

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 therefrom Canadian federal and provincial income taxes and an allowance in respect of the net increase in capital investment in property in Canada. The 1963 Budget announced that the rate of this tax would be increased to 20 per cent effective from January 1, 1965. As of July 1963, this proposed change had not been translated into legislation.

#### Gift Tax

The Income Tax Act levies a tax upon 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 million. Exemptions include complete exemption of gifts of \$1,000 or less and a general deduction of \$4,000 from 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 of the estate 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. After these deductions, the amount left 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.

The tax on the estate of Canadian domiciliaries is calculated by applying a graduated scale of rates. For an aggregate taxable value of \$5,000, or less, the rate is 10 per cent. For an aggregate taxable value of \$100,000, the tax is \$19,000 and anything between \$100,000 and \$150,000 is taxed at 24 per cent. At \$2 million of taxable value, the tax is \$816,500 and the excess over \$2 million is chargeable at the highest rate - 54 per cent. (For the complete rate schedule, see Section 8 of the Act.)

As stated above, there is an abatement from federal estate taxes otherwise payable in respect of provincial succession duties. The abatement is generally a deduction of 50 per cent from the federal tax otherwise payable in respect of property situated in a province that levies succession duties.

The property situated in Canada of a decedent not domiciled in Canada is subject to estate tax at a flat rate of 15 per cent. No deduction is allowed against the assessed value of such property except for debts specifically chargeable to it. However, there is a special provision that exempts all such property of less than \$5,000 value and also provides that the tax must not reduce the value of the property to less than \$5,000. (The Estate Tax Convention between Canada and the United States increases this figure to \$15,000.) Where property is subject to provincial duties the 15 per cent tax is abated by 50 per cent.

### Excise Taxes

The Excise Tax Act levies a general sales tax and special excise taxes. Both the sales tax and the special excise taxes are levied on goods imported into Canada and on goods produced in Canada. They are not levied on goods exported.

General Sales Tax - The sales tax, which is at the rate of 8 per cent, is levied on the manufacturer's sale price of goods produced or manufactured in Canada or on the duty-paid value of goods imported into Canada. For alcoholic beverages and tobacco products, the sale price for purposes of the sales tax includes excise duties levied under the Excise Act referred to below. An old-age security tax of 3 per cent is levied on the same basis as the 8 per cent tax, bringing the total sales tax to 11 per cent.

Many classes of goods are exempt from sales tax. Foodstuffs and fuels for lighting or heating are generally exempt from the tax, as well as articles and materials used by public hospitals. The

products of farms, forests, mines and fisheries are, to a large extent, exempt, as well as most equipment used in farming and fishing. Finally, a variety of items are exempt from sales tax when purchased by municipalities. These and other exemptions are set forth in schedules to the Excise Tax Act.

It was announced in the 1963 Budget that the application of the federal sales tax would be extended to building materials and production machinery which had previously been exempt. The proposed change will take place by stages, and the rate applicable between June 14, 1963, and April 1, 1964, will be only 4 per cent. It will rise to 8 per cent on April 1, 1964, and to the full 11 per cent (the 3 per cent old-age security rate being the last one to be added) on January 1, 1965.

Special Excise Taxes - The Excise Tax Act also provides for a number of special excise taxes, which are in addition to the sales tax. Where there are ad valorem taxes, these are levied on exactly the same price or duty-paid value as the general sales tax. Articles subject to special excise taxes include jewellery, cosmetics, toilet articles, radios, record players and television sets. Tobacco products and wines are also taxed under the Excise Tax Act.

The special excise taxes levied at present are as follows:

Cigarettes .....	2½ cents for 5 cigs.
Cigars .....	15 % <u>ad valorem</u>
Jewellery, including clocks, watches, jewellery, articles of ivory, amber, shell, precious or semi-precious stones, goldsmiths' and silversmiths' products except gold-plated or silver-plated ware for the preparation or serving of food or drink .....	10% <u>ad valorem</u>
Lighters .....	the greater of 10 cents a lighter or 10% <u>ad valorem</u>
Playing cards .....	20 cents a pack
Radios .....	the greater of \$2 a radio or 15% <u>ad valorem</u>
Phonographs and television sets .....	15% <u>ad valorem</u>
Tubes for radios, phonographs and television sets, not including television picture tubes, priced under \$5 per tube .....	the greater of 10 cents a tube or 15% <u>ad valorem</u>
Television set picture tubes .....	15% <u>ad valorem</u>
Slot machines - coin, disc or token-operated games or amusement devices .....	10% <u>ad valorem</u>
Matches .....	10% <u>ad valorem</u>
Tobacco - pipe tobacco, cut tobacco and snuff .....	80 cents a lb.
Tobacco pipes, cigar and cigarette holders and cigarette rolling devices .....	10% <u>ad valorem</u>

Toilet articles, including cosmetics, perfumes, shaving creams, antiseptics, etc. ....	10% <u>ad valorem</u>
<b>Wines - *</b>	
Wines of all kinds containing not more than 7 per cent absolute alcohol by volume .....	25 cents a gallon
Non-sparkling wines containing more than 7 per cent absolute alcohol by volume but not more than 40 per cent proof spirit .....	50 cents a gallon
Sparkling wines .....	\$2.50 a gallon
Insurance premiums paid to British or foreign companies not authorized to transact business in Canada or to non-resident agents of authorized British or foreign companies .....	10% of net premium for property surety, fidelity and liability insurance. (Most other kinds of insurance are exempt.)

All the foregoing items, except the last one, are also subject to the general sales tax of 8 per cent and the old-age security tax of 3 per cent. Cigarettes, cigars and tobacco are subject to further taxes under the Excise Act (referred to as excise duties).

Excise Duties

The Excise Act levies taxes (referred to as excise duties) on alcohol, alcoholic beverages and tobacco products produced in Canada. These duties are not levied on imported goods but the customs tariff on these products includes a levy to correspond to the duties levied on domestic production. These duties are not levied on goods exported.

1. Spirits - The duties are on a gallon basis, in proportion to the strength of proof of the spirits. These duties do not apply to denatured alcohol intended for use in the arts and industries, or for fuel, light or power, or any mechanical purpose. The various duties are as follows:

- (A) on every gallon of the strength of proof distilled in Canada, \$13.00;
- (B) on every gallon of the strength of proof used in the manufacture of
  - (a) medicines, extracts, pharmaceutical preparations, etc., \$1.50 a gallon,
  - (b) approved chemical compositions, 15¢ a gallon,
  - (c) spirits sold to a druggist and used in the preparation of prescriptions, \$1.50 a gallon,
  - (d) imported spirits when taken into a bonded manufactory in addition to other duties, 30¢ a gallon.

---

\* These taxes apply only to wines manufactured in Canada. The customs tariff on wines includes a levy to correspond to these taxes on domestic production.

2. Canadian Brandy - Canadian brandy is a spirit distilled exclusively from juices of native fruits without the addition of sweetening materials. It is subject to a duty of \$11.00 a gallon.
3. Beer - All beer or other malt liquor is subject to a duty of 38¢ a gallon.
4. Tobacco, Cigars and Cigarettes - The excise duties make up nearly as large a part of the total tax on tobacco products as the special excise taxes which have already been described. The rates of duty are as follows:
  - (A) on manufactured tobacco of all descriptions, except cigarettes, 35¢ a pound;
  - (B) cigarettes weighing not more than three pounds per thousand, \$4 a thousand (nearly all the cigarettes used in Canada are of this type);
  - (C) cigarettes weighing more than three pounds a thousand, \$5 a thousand;
  - (D) cigars, \$2.00 a thousand;
  - (E) Canadian raw leaf tobacco when sold for consumption, 10¢ a pound.

COMBINED EFFECT OF EXCISE TAXES AND  
EXCISE DUTIES ON TOBACCO PRODUCTS

Bringing together the taxes imposed on tobacco products under the Excise Tax Act and the duties imposed under the Excise Act gives the following total taxes:

- Cigarettes - \$9.00 a thousand (or 18¢ a pack of 20 cigarettes) plus the 11 per cent sales tax on the manufacturer's sale price.
- Manufactured - Tobacco - \$1.15 a pound plus the 11 per cent sales tax on the manufacturer's sale price.
- Cigars - \$2.00 a 1000 plus the 15 per cent special excise tax and the 11 per cent sales tax on the manufacturer's sale price.

Customs Duties

Most goods imported into Canada are subject to customs duties at various rates as provided by tariff schedules. Customs duties, which once were the chief source of revenue for the country have declined in importance as a source of revenue to the point where they now provide less than 10 per cent of the total. Quite apart from its revenue aspects, however, the Tariff still occupies an important place as an instrument of economic policy.

The Canadian Tariff consists mainly of three sets of rates, namely, British preferential, most-favoured-nation and general. The British preferential rates are, with some exceptions, the lowest rates. They are applied to imported dutiable commodities shipped directly to Canada from countries within the Commonwealth. Special rates lower than the ordinary preferential duty are applied on certain goods imported from designated Commonwealth countries.

The most-favoured-nation rates apply to goods from countries that have been accorded tariff treatment more favourable than the general tariff, but which are not entitled to the British preferential rate. Canada has most-favoured-nation arrangements with almost every country outside the Commonwealth. The most important agreement providing for the exchange of most-favoured-nation treatment is the General Agreement on Tariffs and Trade.

The General Tariff applies to imports from countries not entitled to either the preferential or most-favoured-nation treatment. Few countries are in this category and, in terms of trade coverage, are negligible.

In all cases where the tariff applies, there are provisions for drawbacks of duty on imports of materials used in the manufacture of products later exported. The purpose of these drawbacks is to assist Canadian manufacturers to compete with foreign manufacturers of similar goods. There is a second class of drawbacks known as "home consumption" drawbacks. These apply to imported materials used in the production of specified classes of goods manufactured for home consumption.

The tariff schedules are too lengthy and complicated to be summarized here, but the rates which apply on any particular item may be obtained from the Department of National Revenue, which is responsible for administering the Customs Tariff.

#### Provincial Taxes

All Canada's ten provinces impose a wide variety of taxes to raise the revenue necessary for provincial purposes. All provinces at present levy a tax on the income of individuals and corporations resident within their boundaries or deriving income from activities or operations carried out therein. Only Ontario and Quebec impose special taxes on corporations and only British Columbia, Ontario and Quebec impose a tax on property passing at death. Under the terms of the existing federal-provincial fiscal arrangement, the Federal Government makes payments called "equalization payments" to some provinces in recognition of the fact that the potential tax revenue from the fields of income tax, death duties and natural-resource revenue in those provinces, measured on a per capita basis, is lower than an agreed-upon level. For some provinces, these payments constitute a very important source of revenue.

Some of the more important provincial levies are reviewed briefly below:

#### Individual Income Tax

All provinces levy a tax on the income of individuals who reside within their boundaries or who earn income therein. In nine of the ten provinces, these taxes are computed as a percentage of federal income tax otherwise payable at full federal rates and are collected by the Federal Government on behalf of these provinces. In Quebec, provincial income tax is levied at graduated rates that progress from 2.5 per cent on the first \$1,000 of taxable income to a maximum of 13.2 per cent on the excess over \$400,000. The determination of taxable income for Quebec tax is based on exemptions and deductions similar to those for federal tax. Quebec collects its own tax.

The following table shows the percentage that provincial income-tax liability is of federal income-tax liability computed at full federal rates for 1963:

<u>Province</u>	<u>Percentage of full federal liability</u>
Newfoundland	17 %
Prince Edward Island	17 "
Nova Scotia	17 "
New Brunswick	17 "
Quebec	approximately 18 "
Ontario	17 "
Manitoba	23 "
Saskatchewan	23 "
Alberta	17 "
British Columbia	17 "

### Corporate Income Tax

All provinces levy a tax on the profits of corporations derived from activities carried out within their boundaries. In all provinces except Ontario and Quebec, the provincial tax is imposed on taxable income in the province determined on the same basis as for federal income tax. In Ontario and Quebec the determination of taxable profits for purposes of provincial tax follows closely the federal rules. The rates of tax levied by the various provinces are as follows:

<u>Province</u>	<u>Rate of tax on taxable profits</u>
Newfoundland	9 %
Prince Edward Island	9 "
Nova Scotia	9 "
New Brunswick	9 "
Quebec	12 "
Ontario	11 "
Manitoba	10 "
Saskatchewan	10 "
Alberta	9 "
British Columbia	9 "

Note: All provinces except Ontario and Quebec have signed agreements for the collection of their income taxes by the Federal Government. Four of the ten provinces levy corporate income taxes at rates in excess of the abatement allowed by the Federal Government. This abatement is equal to 9 per cent of corporate profits, except in Quebec where the abatement is 10 per cent.

### Alcoholic Beverages

Generally speaking, the sale of spirits in all provinces is made through provincial agencies operating as boards or commissions, which exercise monopolistic control over this commodity. The provincial mark-up over the manufacturers' price is the effective means of taxation. Beer and wine may be sold by retailers of government stores, depending on the province, but in all cases they contribute to provincial revenues.

### Retail Sales Taxes

Retail sales taxes are levied on the final purchaser or user and are collected by the retailer. Eight provinces now levy this type of tax at rates varying between 3 and 5 per cent. These are Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Saskatchewan and British Columbia. In Quebec, the general rate is 4 per cent, but the province allows its municipalities to levy an additional 2 per cent for municipal purposes.

Amusement Taxes

Each of the provinces, with the exception of Alberta and Saskatchewan, has a tax on admission to places of entertainment. In addition, there is generally a license fee imposed on the operator or owner of these amusement places. The tax on admissions is within the range of 5 per cent to 13 per cent.

Gasoline and Diesel Fuel Oil Taxes

Each of the provinces imposes a tax on the purchase of gasoline by motorists and truckers. The rates vary from 12¢ a gallon in Alberta to 19¢ in Nova Scotia and Newfoundland. The amount of tax borne by one gallon of motor-vehicle fuel in each province is as follows:

	<u>Gasoline</u>	<u>Diesel Fuel</u>
Newfoundland	19¢	19¢
Prince Edward Island	18¢	18¢
Nova Scotia	19¢	27¢
New Brunswick	18¢	23¢
Quebec	15¢	21¢
Ontario	13¢	18.5¢
Manitoba	14¢	17¢
Saskatchewan	14¢	17¢
Alberta	12¢	14¢
British Columbia	13¢	15¢

Motor-Vehicle Licences and Fees

Each province also levies a fee on the annual registration of motor vehicles. This registration is compulsory and each vehicle is issued with licence plates for the year. The rates of this licence fee vary from province to province. The amount to be paid may be assessed in relation to the weight of the car, the number of cylinders of the engine, or at a flat rate. The operator or the driver of a motor vehicle must also register annually and pay a fee for a new driver's licence; in Alberta and British Columbia, drivers' licences must be renewed every five years at a cost of \$5; in Quebec, they must be renewed every two years also at a cost of \$5.

Taxes on Mining Operations

All provinces except Prince Edward Island levy taxes of various kinds on mining operations. All provinces except Prince Edward Island and Alberta impose a tax on the income of firms engaged in mining operations in general or in specific kinds of mining operations. British Columbia, Alberta, Saskatchewan, Manitoba and Ontario impose a tax on the assessed value of minerals or a flat rate an acre of mining property.

Tax on Logging Operations

British Columbia and Ontario levy a tax on the income from logging operations of individuals, partnerships, associations or corporations engaged in this activity. In British Columbia, the tax is 10 per cent on income in excess of \$25,000. In Ontario, the rate is 9 per cent on income in excess of \$10,000.

Capital Taxes

Quebec imposes a tax of 1/10 of 1 per cent on paid-up capital of corporations, while Ontario levies a similar tax at the rate of 1/20 of 1 per cent.

Place-of-Business Taxes

Quebec and Ontario have a place-of-business tax. In Quebec the tax ranges from \$20 to \$50 for each place of business, with the higher amounts being levied in the cities of Montreal and Quebec. In Ontario, the tax for each permanent establishment is the lesser of \$50 or 1/20th of 1 per cent of paid-up capital of the corporation involved, but the total of the capital tax and the place-of-business tax cannot be less than \$20. Ontario also imposes an office tax of \$50 on every corporation that does not maintain a permanent establishment in the province, but merely maintains a buying office or holds certain provincial licences, or merely holds assets, or is represented by a resident employee or agent who is not deemed to operate a permanent establishment of the corporation.

Both provinces levy special taxes on certain kinds of companies such as banks, railway companies, express companies, trust companies and sleeping-car, parlour-car and dining-car companies. In Ontario, these special taxes and the capital and place-of-business taxes mentioned above are payable only to the extent that they exceed the corporate income tax otherwise payable.

Land Transfer Taxes

Alberta and Ontario levy a tax based on the price at which ownership to land is transferred. In Alberta the rate is 1/5th of 1 per cent up to \$5,000 and 1/10th of 1 per cent over \$5,000; in Ontario a straight 1/5th of 1 per cent tax is imposed. In Alberta, the tax is in the form of a registration fee and, in addition, an assurance fee of 25 cents a \$1,000 is charged. In Quebec a tax of 2½ per cent of the purchase price is imposed only when property is transferred under the Bankruptcy or Winding-Up Acts.

British Columbia, Saskatchewan and Manitoba do not have a land-transfer tax but have an equivalent in the land-title fees, which are based on land values.

Tax on Security Transfers

Ontario and Quebec levy a tax on the sale price of securities transferred, the rates in both provinces are:

Shares sold, transferred or assigned valued at:-

Under \$	1	-	1/10	of 1%	of value
at	1 to 5	-	1/4¢	a share	
"	5 to 25	-	1¢	" "	
"	25 to 50	-	2¢	" "	
"	50 to 75	-	3¢	" "	
"	75 to 150	-	4¢	" "	
over	150	-	4¢	" "	

plus 1/10 of 1% of value  
in excess of \$150

Bonds and debentures, 3¢ for every \$100 or fraction thereof of par value.

Premium Income of Insurance Companies

All ten provinces impose a tax of 2 per cent on the premium income of insurance companies relative to risks incurred in the province.

## Succession Duties

Only British Columbia, Ontario and Quebec levy succession duties. These are a tax on the right to succeed to property and are assessed upon the interest of benefit passing at death to an heir or beneficiary.

The three provinces impose succession duties on all property situated in the province belonging to the deceased and passing at his death whether the deceased was domiciled in the province or elsewhere. Personal property wherever situated of a person dying domiciled within the province is also liable if passing to a successor resident or domiciled in the province.

The rates of succession duty are governed by the value of the estate, the relation of the beneficiary to the deceased and the amount going to any one person. The rate of tax will increase as the degree of relationship between the decedent and his successor becomes more remote.

## Provincial Property Taxes

In unorganized (non-municipal) areas, British Columbia levies property taxes, at varying rates according to class, for provincial revenue. Improved, forest and tree-farm lands are taxed at 1 per cent of assessed value; farm land at  $\frac{1}{2}$  of 1 per cent; wild land at 3 per cent; coal land at 2 per cent (non-operating) or 7 per cent (operating); and timber land at  $1\frac{1}{2}$  per cent.

## Municipal Taxation

The municipalities in Canada levy taxes on the owners of property situated within their jurisdiction according to the assessed value of such property. Methods of determining assessed value vary widely, but for taxation purposes it is generally considered to be a percentage of the actual value. The revenues from such taxes are used to pay for street maintenance, schools, police and fire protection and other community services. Special levies are sometimes made on the basis of street frontage, to pay for local improvements to the property such as sidewalks, roads, and sewers. Not only is there a widespread difference in the bases used for property tax, but there is also a wide variety of rates applied, depending on the municipality.

In addition to the taxes described above, municipalities usually impose a charge for the water consumption of each property holder or a water tax based on the rental value of the property occupied. There are no municipal income taxes, though certain localities have retained the use of a poll tax. In Newfoundland, Quebec and Saskatchewan, municipalities are empowered to levy an amusement tax on the admission of persons to places of amusement. This practice differs from that of the other provinces, where the amusement tax is generally a provincial preserve. Electricity and gas are taxed at the consumer level in some Western municipalities, while coal and fuel oil for heating purposes are chargeable in urban areas of Newfoundland. Telephone subscribers are subject to a special levy in Montreal, while certain Ontario municipalities impose a tax on the gross receipts of telephone companies.

In most municipalities, a tax is levied directly on the tenant or the operator of a business. In general, business tax rates are lower than those applying to property. Three bases of assessment are in use: a fraction of the property assessment, the annual rental value of the premises, or the area of the premises. Certain municipalities may charge a licence fee instead of a business tax, while others will charge both a licence fee and business tax. In Nova Scotia, all but one of the municipalities tax personal property (stocks in trade, equipment, etc.) the same as real property.

Miscellaneous Levies

These are not generally referred to as taxes, but they are similar to taxes in many ways.

Unemployment Insurance

For the last 23 years, a national programme of unemployment insurance has been in operation in Canada. Essentially, it provides relief to those qualified persons who temporarily find themselves without work. It is administered by a federal commission appointed for this purpose and financed by equal contributions from employers and employees plus a contribution from the Federal Government. The amount paid into the fund by employee and employer is directly proportional to the weekly wages of the employee. The rates of contributions are as follows:

<u>Range of earnings</u>	<u>Weekly contributions</u>	
	<u>Employer's</u>	<u>Employee's</u>
less than \$ 9.00	10¢	10¢
\$ 9.00 to \$15.00	20¢	20¢
\$15.00 to \$21.00	30¢	30¢
\$21.00 to \$27.00	38¢	38¢
\$27.00 to \$33.00	46¢	46¢
\$33.00 to \$39.00	54¢	54¢
\$39.00 to \$45.00	60¢	60¢
\$45.00 to \$51.00	66¢	66¢
\$51.00 to \$57.00	72¢	72¢
\$57.00 to \$63.00	78¢	78¢
\$63.00 to \$69.00	86¢	86¢
\$69.00 and over	94¢	94¢

The wage ceiling for insurability is \$5,460 a year.

Workmen's Compensation

Legislation in force in all provinces provides compensation for personal injury suffered by workmen as a result of industrial accidents. In general, these provincial statutes establish an accident fund administered by a board to which employers are required to contribute at a rate proportional with the hazards of the industry.

Hospital Insurance

A federal-provincial hospital insurance plan has now been adopted by each of the ten provinces. Under this arrangement, the Federal Government pays approximately half the cost of hospitalization for patients who are participants under the plan. The provinces meet the rest of the cost. Provincial revenues for this purpose are raised by various means. Quebec has increased its personal and corporation income tax. Certain provinces require the deduction of a monthly premium from the wages of their residents as a contribution or premium for the plan. In such provinces non-salaried people must also pay the premium directly if they wish to be covered by the plan. In some other provinces the proceeds of a retail sales tax are earmarked in whole or in part for the support of the hospital plan.

-----

This explanatory paper is not an official interpretation of any of the taxing statutes. The administration of federal taxing statutes is the responsibility of the Minister of National Revenue. The provincial and municipal taxes are administered by provincial and municipal government departments.

Miscellaneous Taxes

These are not generally referred to as taxes, but they are similar to taxes in many ways.

Unemployment Insurance

For the last 23 years, a national program of unemployment insurance has been in operation in Canada. Basically, it provides relief to those qualified persons who temporarily lose their jobs without work. It is administered by a federal commission appointed for this purpose and financed by equal contributions from employers and employees plus a contribution from the federal government. The amount paid into the fund by employer and employee is directly proportional to the weekly wages of the employee. The rates of contributions are as follows:

<u>Weekly contributions</u>		<u>Range of earnings</u>
<u>Employer's</u>	<u>Employee's</u>	
10%	10%	less than \$1.00
20%	20%	\$1.00 to \$15.00
30%	30%	\$15.00 to \$25.00
35%	35%	\$25.00 to \$35.00
40%	40%	\$35.00 to \$45.00
45%	45%	\$45.00 to \$55.00
50%	50%	\$55.00 to \$65.00
55%	55%	\$65.00 to \$75.00
60%	60%	\$75.00 to \$85.00
65%	65%	\$85.00 to \$95.00
70%	70%	\$95.00 and over

The wage ceiling for insurability is \$1,400 a year.

Workmen's Compensation

Legislation in force in all provinces provides compensation for personal injury suffered by workmen as a result of industrial accidents. In general, these provisions are administered by a board maintained by a board of which employers are required to contribute at a rate proportional with the hazards of the industry.

Hospital Insurance

A federal-provincial hospital insurance plan has now been adopted by each of the provinces. Under this arrangement, the federal government pays approximately half the cost of hospital care for patients who are hospitalized under the plan. The cost is met the rest of the cost. Provincial revenues of this type are raised by various means. Quebec has increased its personal and corporate income tax. Certain provinces require the deduction of a monthly premium from the wages of their residents as a contribution or premium on the plan. In such provinces, non-salaried people also pay the premium directly if they wish to be covered by the plan. In some other provinces the proceeds of a retail sales tax are earmarked in whole or in part for the support of the hospital plan.

This explanatory paper is not an official interpretation or any of the taxing statutes. The administration of federal taxes is the responsibility of the Minister of National Revenue. The provincial and municipal taxes are administered by provincial and municipal government departments.