Canada

Taxation in Canada

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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 person who is expected to pay it. This 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 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 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. Further legislation was introduced in July 1917 calling for the adoption of a federal income tax, to which Parliament gave the name "Income War Tax Act". The Act carried effective rates of tax on personal incomes ranging from 4 per cent to 29 per cent. Corporations were taxed at a flat rate of 4 per cent.

In 1927, the Department of National Revenue was formed to administer the tax laws passed by Parliament, while the Department of Finance continued to determine the Government's tax policy.

Numerous amendments to the 1917 legislation were passed that led the Government to adopt the 1948 Income Tax Act, and later, as part of a general revision of the federal statutes, the Income Tax Act of 1952. The latter remained the federal taxing statute until 1972, when amendments proposed as part of an extensive reform of the system came into effect. This long and controversial tax-reform program was unprecedented for Canada and has been described as a landmark in the history of Canadian law-making.

"Tax reform" began in 1962, with the appointment of the Royal Commission on Taxation. For almost six years, the commissioners analyzed and assessed meticulously all aspects of a 45-year-old system that had been the product of many years of changes, additions and deletions. In 1967, they presented a report recommending sweeping changes in the tax system.

Two years later, a White Paper outlining the Government's own proposals—based in many respects on the work of the royal commission—was tabled in the Commons. Following this, the Government invited public comment on its proposals and further discussion took place. Two Parliamentary committees—the Commons Committee on Finance, Trade and Economic Affairs and the Senate Committee on Banking, Trade and Commerce—undertook to assess the proposals in the White Paper and to publish reports and recommendations of their own. Provincial governments were invited to comment upon and criticize the White Paper and to make counter-proposals. In all, some 26,000 letters, briefs and other submissions were received in the Department of Finance.

Drawing from this lengthy and thorough exchange with the public, business groups, the provinces and the Commons and Senate committees, the Government introduced comprehensive legislation to amend the Income Tax Act as part of the budget of June 18, 1971.

The 1971 bill proposed higher exemptions for individuals and their families; new deductions, including amounts for employment and child-care expenses; the taxation of capital gains and other important forms of income previously ignored by the system. It also proposed a new basis on which to tax corporations and their shareholders, changes in the tax treatment of resource industries, new rates for small businesses, and new provisions to deal with Canadians doing business abroad and non-residents investing in Canada. The new system sought to achieve more balance and equity in the tax structure—taxing persons in similar circumstances similarly but assuring that no one carried an inappropriate share of the total tax load.

The measures sought by the Government were enacted by Parliament in December 1971, and the legislation came into effect on January 1, 1972. Since then, other tax changes have been legislated to complement the tax-reform exercise. These include further exemption increases, lower personal tax-rates, and a number of incentive measures designed to assist the manufacturing and processing sectors of the economy. Also intro-

Federal taxes

duced, effective in 1974, was a system of indexing the tax-rates and exemptions so that the interaction of inflation and the progressive tax system would no longer erode taxpayers' purchasing power.

Personal income tax
Every individual resident in Canada is liable for the payment of income taxes on all of his world income on a yearly basis. His first step in determining the amount of income tax payable is to compute his income for the year, including salaries, wages, benefits received from employment, fees, commissions, dividends, annuities, pensions, interest and, since 1972, one-half of realized capital gains. Also included are the benefits received under the unemployment insurance program, scholarships in excess of $500, research grants, and other types of income.

Benefits such as social assistance payments, war service disability pensions and compensation paid under the workmen's compensation act of a province do not have to be included in income.

Deductions
Certain amounts are deductible in computing income. These include a variety of expenditures or costs to the taxpayer that are generally related to earning income, including: contributions to a registered employee pension plan or registered retirement savings plan, and premiums to the unemployment insurance fund; union dues; general employment expenses of employees; expenses of lodging and meals while away from home for employees of transport businesses who are required to travel regularly in the performance of their duties;

child-care expense deduction for mothers (or fathers, in certain circumstances) who have their children cared for while earning income away from home; expenses of moving to a new work location; tuition fees for students attending a university, college, high school or other certified institution; business expenses and other expenses of earning income including rents, wages, contributions to a pension plan, capital-cost allowances, municipal taxes, interest on borrowed money, business losses.

Other considerations in computing income

Half of capital losses are deductible against half of capital gains taxable as income. Where the deductible losses exceed the taxable gains, up to $2,000 of the excess losses may be set off against other income. Losses not deducted in the year may be carried back one year and carried forward until used up.

The sale of personal property for less than $1,000 and the sale of a principal residence do not give rise to a taxable gain. Upon death, the taxpayer is deemed to have sold all of his capital property at fair market value, except where the property is passed on to the surviving spouse. A gift of property between living persons also gives rise to a disposition that may be taxable unless the recipient is the taxpayer's spouse. Special rules apply in the case of farms and small family corporations.

The amount of a capital gain or loss is determined by reference to its adjusted cost-base—that is, cost plus or minus adjustments. "Cost" for determining capital gains on property owned at the start of 1972 is computed by reference to the higher of its cost or value on "valuation day" at the end of 1971. For property acquired after valuation day, actual cost is used as a basis of determining adjusted cost base.

Once he has computed his income, the taxpayer takes into account other deductible amounts such as personal exemptions and special allowances for dependent children and other dependents, for charitable donations and for medical expenses. Taxpayers over the age of 65 and those blind or confined to a wheelchair receive added exemptions.

Instead of claiming itemized charitable donations and medical expenses, the taxpayer may claim a $100 standard deduction in respect thereof. The amount of guaranteed income supplement paid to pensioners with little or no income aside from the basic old-age pension is not included in computing income, but is taken into account in determining the degree of their dependency on others for tax purposes.

Business losses incurred during the year may be written off against income of the preceding and the five subsequent years.

Since 1972, students have been able to deduct $50 a month for each month of full-time attendance at a university or course at a designated institution. Where the student's income is insufficient to cover the whole deductible amount, the unused portion may be claimed by a supporting individual.

Special rules apply in the cases of individuals who become resident in Canada or who cease to be resident at any time during the year.

Income may be averaged over a period of years where it is unusually high in any year. One of two provisions may be used. The first is automatically applied by the Department of National Revenue where the taxpayer's income for the year is 20 percent higher than it was in the four preceding years and 10 percent higher than it was in the immediately-preceding year. The second averaging device consists of purchasing an "income-averaging annuity contract". The cost of the annuity contract is deductible when purchased and taxable when the annuity payments are received. Only certain types of income, such as capital gains, lump-sum payments out of a pension plan, proceeds from a literary or artistic work, or amounts received from activities such as athletics, music and public entertainment, may qualify for the second averaging device.

Computation of tax

After computing taxable income, the amount of federal and provincial tax payable for the year is determined by applying a progressive rate of tax to taxable income. Individuals with income not earned in a province, such as non-residents, are also subject to an additional rate established under the Federal Income Act, which is equivalent to a provincial rate and is applied in the same manner, although the resulting tax is payable to the Federal Government.

Personal exemptions and the rates in the federal income tax tables are adjusted annually and are based on the increase in the Consumer Price Index in an immediately preceding period. This cost of living factor increases the personal exemptions and adjusts each bracket of taxable income. The factor for 1979 was 9 per cent.

Because Quebec levies its own income taxes, residents of that province may reduce federal taxes otherwise payable by an amount equal to 16.4 per cent. This abatement is in recognition of the fact that Quebec finances certain programs that, in other provinces, are partly financed by the Federal Government.

A special tax credit is applied to dividends received from a corporation resident in Canada.

Under a tax reduction introduced in 1973, federal taxes, as computed under the prescribed rates, are further reduced by 9 per cent. This reduction is subject to a minimum of $200 and a maximum of $500.

Taxes paid to a foreign country on income from foreign sources may be deducted from Canadian taxes to the extent that such taxes do not exceed the Canadian taxes on a corresponding amount.

An income tax is imposed on the income of corporations for each taxation year. A corporation's taxation year is ordinarily 12 months. In computing income for a taxation year, corporations resident in Canada must include their world income; non-resident corporations compute income attributable to their Canadian operations.

The income of a corporation includes all income from its business and property and half of any capital gains realized on the sale or disposition of any property.

Corporations

In computing income, corporations may deduct:

- Operating expenses, including wages paid to employees, contributions to a pension scheme, municipal taxes, reserves for doubtful debts, bad debts and interest on money borrowed to gain or produce income (including money borrowed to buy shares in another corporation);
- half of capital losses against half of capital gains;
- capital-cost allowances for all depreciable property at a specified annual rate;
- accelerated capital-cost allowance (two-years) for machinery and equipment acquired by manufacturers and processors for use in Canada after May 8, 1972.
- accelerated capital-cost allowance (two years) for structures and equipment; in the case of water pollution after April 26, 1965 and in the case of air pollution, acquired after March 12, 1970, for installation or construction on a site or in a plant that was in existence before 1974. The year 1974 is the cut off date since Federal Government pollution-abatement standards were made mandatory on July 17, 1973. The program has continued to induce companies to undertake environmentally necessary expenditures on structures and equipment on sites that existed pre-1974.

Corporations engaged in developing natural resources such as minerals, petroleum products and timber are subject to special rules that take into account the special risks, the large amounts of capital investment required and the non-renewable nature of many of these natural resources.

Special provisions
The general federal rate of tax on corporate taxable income earned is 46 per cent. Special provisions have been enacted to assist "small business".

The "small business" deduction reduces the rate of tax on certain business income to 25 per cent. This concession is restricted to Canadian corporations not controlled by non-residents or by a Canadian public corporation. It applies only to income from an active business carried on in Canada, and not to investment income. The special rate applies to the first $150,000 of annual income of the eligible corporation until it has accumulated $750,000 of taxable income after 1971.

The general rate of 46 per cent and the special rate of 25 per cent are reduced to 40 per cent and 20 per cent respectively on profits from manufacturing and processing activities carried out in Canada.

Special rules are also provided for the taxation of certain types of company, including mutual fund corporations, life insurance companies, co-operatives, credit unions and investment corporations.

The rates of federal tax payable by a corporation are reduced by 10 percentage points on income earned in a province. This provincial abatement is provided to make room for provincial income taxes. At present, the provinces impose corporate taxes ranging from 10 per cent to 15 per cent. In addition, the corporation may deduct any taxes it has paid to a foreign country on foreign-source income, up to the corresponding tax that would have otherwise been payable in Canada.

Collection of income
Under the name Revenue Canada, Taxation, the Department of National Revenue is responsible for assessing and collecting individual and corporate income taxes under the Income Tax Act of Canada. It collects provincial income taxes from individuals for all provinces except Quebec, as well as contributions to the Canada Pension Plan and premiums for unemployment insurance.

Source deductions
When most Canadians file their annual tax returns, they have already paid part or all of their taxes through deductions from income. Revenue Canada, Taxation provides employers with annual deduction tables to advise them of the amount of federal and provincial income tax, Canada Pension Plan contributions and unemployment insurance premiums which should be withheld from employees' salaries.

Instalment payments
All individuals are required to make quarterly instalment payments of income tax unless: tax is deducted at source from at least three-quarters of their net income; or their chief source of income is farming or fishing; or fed-

eral income tax for the current or preceding year does not exceed $400. They may choose between:

(1) estimating what their tax payable for the year will be and calculating instalments on this estimated amount; or,

(2) basing their current instalments on the amount of tax payable for the preceding year.

Those taxpayers paying by quarterly instalments remit a quarter of the total amount on or before the last days of March, June, September and December. If they overpay or underpay, an adjustment is made when they file their income tax returns.

Farmers and fishermen whose tax is more than $400 also pay by instalments but on a different basis. Two-thirds of their estimated annual tax is due on December 31, with the balance payable on or before the following April 30.

Corporations remit income tax in monthly instalments, and any adjustments are made within two months from the end of the corporation's taxation year. Those entitled to claim the small business deduction, however, are allowed an extra month to pay the balance of tax due.

Taxpayers who pay tax by instalments must pay interest on outstanding amounts or late payments. On the other hand, the Department pays interest to taxpayers on refunds owing after the annual filing deadline of April 30, if the return was filed on time.

Canada Pension Plan

Revenue Canada, Taxation determines who is covered by the Canada Pension Plan (CPP) and collects contributions payable from employers, employees and self-employed persons. Health and Welfare Canada administers the benefit provisions and has over-all responsibility for the plan.

The Canada Pension Plan provides retirement pensions, disability pensions, benefits for dependent children of disabled contributors, death benefits and survivor's benefits on the death of a contributor. It operates in all provinces except Quebec, which has a similar plan, the Quebec Pension Plan.

Participation in the CPP is compulsory for almost everyone between the ages of 18 and 70 who has annual earnings of more than $1,100 from pensionable employment or who is a self-employed resident of Canada with net income of more than $1,300 in the year.

Employers are required to deduct CPP contributions from their employees' gross salaries. They must also match these contributions dollar for dollar and remit the total amont to Taxation each month along with income tax deducted and the employer-employee unemployment insurance premiums.

Unemployment insurance
Taxation also collects unemployment insurance (UI) premiums and administers the related coverage provisions. The Canada Employment and Immigration Commission is responsible for payment of benefits and related matters.

Generally, payment of employer and employee premiums is compulsory for an employee under contract of service. Self-employed persons are usually not required to pay UI premiums.

Non-resident tax
While most income tax is collected in the form of payroll deductions or instalment payments, certain types of income are subject to non-resident tax which is withheld at source.

Subject to certain exceptions, income such as interest, royalities, estate or trust income, alimony, payments from motion picture films, management fees, annuities, pensions, dividends or rents paid from Canada to an address outside the country or credited to the account of a non-resident, is subject to a withholding tax of between 5 and 25 per cent. The organization or individual making the payment is required to withhold the tax and remit it to Revenue Canada, Taxation.

Non-residents are not required to file an individual income tax return unless they received income from employment in Canada, carried on a business in Canada, or disposed of taxable Canadian property. In certain cases, however, the taxpayer is allowed the option of filing a return for certain kinds of income such as pensions, or rental income from real property. When the taxpayer anticipates a tax refund in this respect it may be advantageous to file the return.

To prevent double taxation, Canada currently has 24 tax conventions (treaties) in force and 11 other agreements being processed with other countries. Some of these agreements in force are being renegotiated by the Department of Finance while several new treaties are being proposed. When there is a conflict between the provisions of the Canadian Income Tax Act and those of an agreement, the provisions of the agreement prevail.

Child tax credit
Beginning with the 1978 income tax year, the child tax credit program made a credit available through the income tax system to supplement family allowance payments. For 1978, parents with a total net income of $18,000 or less received the maximum credit of $200 per child. Others received a reduced amount or no credit depending on their total income. To receive the child tax credit all applicants must complete and file a tax return.

Simplified tax return
In January 1979, a special tax return was introduced for the 1979 filing season. This return replaces the general form for taxpayers whose tax affairs are relatively uncomplicated. It is intended primarily for salary- and wage-earners and people with little or no taxable income, such as students, senior citizens and individuals filing only to claim the child tax credit.

Audit of returns
Although most people in Canada comply with the requirements of the Income Tax Act, a comprehensive audit of tax returns is essential for the protection of the self-assessment system. To maintain the high standard of compliance, the Department conducts a vigorous program of auditing returns.

Returns are checked during the initial processing stage at the Taxation Centres. District Offices also carry out programs to verify claims for deductions, to ensure that all income was properly reported and to identify those who have not filed a tax return.

Reassessments and penalties
If auditors discover that tax has been overstated or understated, the Department advises the taxpayer and gives him an opportunity to explain. The return is then reviewed again.

If the Department believes the taxpayer knowingly understated the amount of tax or that the understatement of tax was the result of gross negligence, the taxpayer is informed that a penalty is being considered and is invited to present reasons why it should not be applied. When the taxpayer's response is received, the full circumstances of the case are reviewed again at a more senior level. The Department may then decide to apply a penalty, usually equal to 25 per cent of the understatement of both federal and provincial tax.

A taxpayer who receives a reassessment notice as the result of an audit has the right to file an appeal or notice of objection.

If auditors suspect that a taxpayer deliberately attempted to defraud the Government of money owing, they may refer the case to the Special Investigations Division which deals with tax evasion.

Filing an objection
If differences persist after an assessment is issued and discussed with the District Taxation Office, the taxpayer has 90 days from the date when the assessment or reassessment notice was issued to file a notice of objection. The first formal appeal step initiates an independent review of the case by an appeals officer in the district office. Taxpayers or their representatives are invited to confer with the appeals officer at this stage.

The taxpayer, in the notice of objection, may, with the consent of the Minister of National Revenue, waive reconsideration of the assessment and appeal immediately either to the Tax Review Board or the Federal Court. If the Minister consents to the request, the appeal will go to the Board or Court. If the Minister does not consent, the objection will be considered in the usual way at the District Taxation Office.

Approximately 75 per cent of all objections are settled at the District Office to taxpayers' satisfaction. The remaining 25 per cent represent unresolved objections which are carefully considered by district appeals officers before the disputed assessments are either confirmed or modified.

Tax Review Board
The Tax Review Board is an independent body which holds hearings in the larger centres of Canada. If still dissatisfied, a taxpayer may appeal an assessment to the Tax Review Board within 90 days from the date the Department mails a confirmation of the assessment or a notice of reassessment which varies from the original assessment under objection. The law also provides that when the Minister has not notified the taxpayer of his action within 180 days from the date of service of a notice of objection, a taxpayer may appeal to the Tax Review Board. There is no filing fee and costs may not be awarded by the Board.

Federal Court of Canada
A taxpayer has the option of appealing directly to the Federal Court of Canada, Trial Division, rather than to the Tax Review Board within the same time provisions as those for an appeal to the Board. A taxpayer or the Department also appeal a decision of the Tax Review Board to this Court. Federal Court, Trial Division judgments can be appealed to the Federal Court of Appeal. Decisions of this Appeal Court can, with leave, be appealed to the Supreme Court of Canada.

Estate, gift and excise taxes
The Federal Government formerly imposed an estate tax and a tax on gifts. Neither of these taxes applies to deaths that occurred after 1971, or to gifts made after 1971.

The Excise Tax Act levies a general sales tax and special excise taxes on goods produced in Canada or imported. The Act does not, however, affect Canadian exports.

The general sales tax is imposed at a rate of 9 per cent on the manufacturer's sale price of goods produced or manufactured in Canada or on the duty-paid value of imported goods—that is, their value after customs duties added. A lower rate, of 5 per cent is imposed on building materials. A higher rate of 12 per cent is imposed on alcohol and tobacco.

Many goods are exempt from the sales tax. These include drugs, clothing, electricity, fuels for lighting or heating, all foodstuffs, articles and materials purchased by public hospitals and certain welfare institutions. The products of farms, forests, mines and fisheries are, to a large extent, excluded, as well as equipment used in farming, lumbering, mining and fishing. Machinery and equipment used directly in production and materials consumed or expended in production are also exempt. The same applies to equipment acquired by manufacturers or producers to prevent or to reduce water, soil or air pollution resulting from their manufacturing operations.

A number of items are exempt when purchased by municipalities. These and other exemptions are set forth in the various schedules to the Excise Tax Act.

The Excise Tax Act also imposes a number of special excise taxes in addition to the general sales tax and, where these are *ad valorem* taxes, they are levied on the same selling price or duty-paid value as the general sales tax. The main items subject to these special excise taxes are cigarettes, cigars, pipe tobacco, wine and jewellery.

Excise and customs duties

The Excise Act levies taxes (referred to as excise duties) upon alcohol, alcoholic beverages (other than wines) and tobacco products. These duties are not levied on imports, but the customs tariff applies special duties to these products equivalent to the excise duties levied on the products manufactured in Canada.

Many goods imported by Canada are subject to customs duties at various rates, as provided in the customs tariff.

The Canadian tariff structure consists of four sets of tariff rates—British preferential, most-favoured-nation, general preferential and general. British preferential tariff rates are applied to commodities imported from all British Commonwealth countries, excluding Hong Kong. Most-favoured-nation rates are generally higher than British preferential rates, and are applied to nations with which Canada has special trade agreements. The most important of these is the General Agreement on Tariffs and Trade (GATT).

The general preferential tariff is designed to allow lower rates of duty on goods imported from developing countries. In general, the rate is either the British preferential rate or the most-favoured-nation rate minus one third, whichever is the lesser. General tariffs are normal tariff rates to countries with which Canada has made no trade agreements.

There are provisions for relief from duty on imports of materials used in the manufacture of products later exported. The purpose of this relief or "drawback of duty" is to help Canadian manufacturers compete with foreign manufacturers of similar goods in world markets. There is a second class of drawbacks known as "home

Provincial taxes

consumption" drawbacks. These apply to imported articles used in the production of specified classes of goods manufactured for the domestic market.

All provinces impose a wide variety of taxes to finance their revenue requirements. The Federal Government makes payments to some provinces in recognition of the fact that the potential yield of taxes in those provinces on a *per capita* basis is less than the national average. These are called "equalization payments". For some, such payments constitute an important source of revenue.

Personal income tax

All provinces impose taxes on the personal income or business income of their residents and those who carry on a business within their boundaries.

Nine of the ten provinces levy personal income taxes as a percentage of federal taxes. The federal tax on which these provinces base their levy is the federal tax before the special 9 percent reduction.

In Quebec, personal income tax is levied using a progressive rate-schedule starting at 13 per cent on the first $577 of taxable income and rising to a maximum of 33 per cent on income in excess of $60,714. The determination of taxable income for Quebec tax is based on exemptions and deductions that, with the exception of deductions for dependent children under age 18, are similar to those provided under federal tax law. Quebec taxpayers who have married status for tax purposes do not pay the provincial tax unless their income exceeds $6,300; all other taxpayers pay tax on income in excess of $3,600.

The collection of provincial income taxes by the Federal Government does two things: it eliminates the need for taxpayers to file separate income tax returns with different governments, and it provides uniformity of administration for determining taxable income. (Quebec collects its own personal and corporation income taxes, while Ontario collects its own corporation income tax.)

Provincial income taxes are calculated on the federal individual and corporation tax return, except for those taxes collected by Quebec and Ontario as noted above. The Federal Government gives an accounting of the assessed provincial tax to the provincial governments.

Individual taxes are computed by applying the appropriate provincial rate, as follows, to the basic federal tax. Provincial tax credits are available to certain residents of New Brunswick, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.

1979 individual provincial income tax rates

	%
Newfoundland	58
Prince Edward Island	50
Nova Scotia	52.5
New Brunswick	55.5 plus 5.5% negative surtax
Ontario	44
Manitoba	54
Saskatchewan	53 plus provincial surtax
Alberta	38.5
British Columbia	45
Northwest Territories	Territorial Tax—43

(Note: the calculation of federal tax provides for an additional tax of 43 per cent of the "Basic Federal Tax" for residents of the Yukon Territory (up to 1979) and outside Canada)).

Corporation income taxes

Except for Quebec and Ontario which levy their own corporate tax, provincial corporation income taxes are computed by applying the appropriate provincial rate to the federal taxable income. The resulting provincial tax may then be reduced by provincial tax rebates or credits for corporations residing in Saskatchewan, Alberta and British Columbia.

1979 Corporation income tax rates

	Small Businesses %	Other Businesses %
Newfoundland	12	14
Prince Edward Island	10	10
Nova Scotia	12	12
New Brunswick	9	12
Ontario	10	14
Quebec	12	
Manitoba	11	15
Saskatchewan	11	14
Alberta	5	11
British Columbia	12	15
Northwest Territories	10	10
Non-provincial (Yukon Territory and non-resident)	10	10

Non-resident tax
In most cases, a tax is payable when interest, dividends, management fees, estate or trust income, rents, royalties, alimony, pensions, annuities or similar payments are paid to non-residents. The statutory rate of tax is 25 per cent except where it is overridden by other provisions of the Income Tax Act or through tax treaties (for example, a 20 percent rate applied to dividends paid to non-residents by corporations having a required degree of Canadian ownership). The effective rate of non-resident tax under most tax treaties varies between 10 and 25 per cent.

Other provincial taxes
Generally speaking, the sale of whisky, gin, rum and similar spirits in all provinces is made through provincial agencies operating as boards or commissions that exercise control over the sale of alcoholic beverages. The provincial mark-up over the manufacturers' price is the effective means of taxation. Beer and wine are sold by retailers or by government stores, depending on the province, but in all cases these sales contribute to provincial revenues. Some provinces also impose special retail sales taxes on alcoholic beverages.

In addition, all provinces impose special taxes on the sale of tobacco products.

Retail sales tax
All provinces except Alberta impose sales tax on goods sold to the final purchaser or user. Some of these provincial levies also apply to certain services, including hotel and motel accommodation, telephone services, telecommunications and dry-cleaning services. They are collected by retail vendors acting as agents of the provinces. The rates are as follows:

Province	Rate of levy %
Newfoundland	11
Prince Edward Island	8
Nova Scotia	8
New Brunswick	8
Quebec	8
Ontario	7
Manitoba	5
Saskatchewan	5
British Columbia	4

These direct levies apply to taxable commodities sold for consumption in the province. They do not apply to goods sold for delivery in other provinces or to exported commodities. All provinces imposing sales tax provide important exemptions on sales of certain types of goods, such as foodstuffs and drugs.

Gasoline and diesel fuel oil taxes
All provinces impose a tax on the purchasers of gasoline and diesel fuel. Some provinces provide relief from this tax where fuel is used for farming or fishing operations, or other off-highway purposes.

Motor-vehicle licences and fees
All provinces levy a fee on the compulsory annual registration of motor vehicles. The rates of this fee vary from province to province. In the case of passenger cars, the fee may be assessed on the weight or the wheelbase of the car or the number of cylinders of the engine, or at a flat rate. The fees for commercial motor vehicles and trailers are based on the gross weight for which each vehicle is registered. Every operator or driver of a motor vehicle is required to register periodically and pay a fee for a driver's licence. These licences are valid for periods of from one to five years and the fees range from $1 to $7 a year.

Succession duties and gift taxes
These duties are a tax upon property inherited from a deceased person and are now levied only by Quebec which collects its own succession duties. The province also imposes a tax on gifts made during lifetime.

Miscellaneous taxes
Other taxes imposed by some of the provinces include:

- tax on admission to places of amusement;
- taxes on various kinds of mining operations;
- taxes on logging operations;
- a tax on the paid-up capital of corporations;

- a tax on the price at which land is transferred;
- special taxes on certain kinds of companies, such as banks or insurance companies;
- special taxes on operators of race-track meets and on the amount in a *pari-mutuel* betting pool.

In Canada, municipalities do not levy taxes on income. They levy taxes on the owners of real 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 market 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. In some cases, a separate rate of tax is imposed for school-board purposes. There is not only a widespread difference in the bases used for property tax but also a 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. In Newfoundland, Quebec and Saskatchewan, municipalities are empowered to levy a tax on the admission of persons to places of entertainment. Electricity, gas and telephone use are taxed at the consumer level in some municipalities.

In most municipalities, a tax is levied directly on a business enterprise. 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 collect a licence fee instead of a business tax, while others will charge both a licence fee and a business tax.

NOTE: This publication is not an official interpretation of any of the taxing statutes. It is an explanation. As such, it does not attempt to describe any of the various taxes in a comprehensive or detailed manner. It attempts to provide only a general description of the most important features of these various taxes; by necessity, many important details have not been mentioned.

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