THE LIBRARIAN,
DEPARTMENT OF EXTERNAL AFFAIRS,
EAST BLOCK,
OTTAWA, ONT.

EAO
RP-A-4

REFERENCE PAPERS

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 105

TAXATION IN CANADA

(Prepared in the Taxation Division,
Department of Finance, Ottawa)

Introduction

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 of raising "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 government concerned. Thus, from a practical standpoint, municipalities are also limited to direct taxation.

A direct tax is generally recognized as one "demanded from the very person who it is intended or desired should pay it". In essence, this conception has limited the 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, gifts, and the estates of deceased persons and indirect taxes such as excise taxes, excise and customs duties and a sales tax.

Federal-Provincial Agreements

The increasing use by both the federal and 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 between the federal and provincial governments have been entered into under which the adherent provinces have undertaken, in return for compensation, not to use, or to permit their municipalities to use, certain of the direct taxes. As a result of the most recent of these agreements, all provinces except Quebec have undertaken not to impose a personal income tax for the period 1957-62 and all provinces except Ontario and Quebec have undertaken for the same period not to impose taxes on corporations or successions. Consequently, the Province of Quebec

is at present the only political subdivision in Canada levying its own personal-income tax and Ontario and Quebec are the only jurisdictions imposing corporation-income taxes, special corporation taxes and succession duties.

The fact that the Provinces of Ontario and Quebec have chosen to continue to impose direct taxes has not resulted in recent years in taxpayers in those provinces bearing a substantially heavier tax load than taxpayers in other provinces. As part of recent federal-provincial arrangements, the federal income tax and estate tax are abated by certain amounts in those provinces which also impose these taxes.

Federal Taxes

Individual Income Tax

Every person residing in Canada at any time during a year is liable for the payment of income tax for that year. In addition, every individual who is employed or carried on business in this country during a year is required to pay tax on the part of his taxable income earned in Canada. Canadian taxation practice is based to a large extent on 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 at any time 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.

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, a taxpayer 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 for 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, a taxpayer 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 employees' pension plans, 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. In addition, all persons may deduct, within limits, amounts set aside to provide a future income under registered retirement savings plans.

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

For single status an exemption of	- $1000
For married status an exemption of	- $2000
For dependent children eligible to receive family allowance	- $ 250
For other dependents (as defined in the law)	- $ 500
Where taxpayer is over 65 years of age	- an additional $ 500
Charitable donations up to 10 per cent of income	

Medical expenses that exceed 3 per cent of income may be deducted up to a maximum of $1500 for a single person, $2000 for a married person, and $500 for each dependent or a total of $2000 for all dependents. 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 mentioned above, an individual resident in Canada for the whole year is taxed on his income from both inside and outside Canada. An individual not resident in Canada at any time during the year but who carried 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 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 in Canada during the year or who is resident for only part of the year will be subject to income tax in Canada only on 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 that 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. For 1959 these rates begin at 11 per cent on the first $1000 of taxable income and increase to 79 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 2½ per cent, with a maximum of $75 reached at the level of $3000.

Investment income in excess of the greater of $2500 or the total of personal exemptions, bears a surtax of 4 per cent.

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 on this foreign income provided the credit does not exceed the proportion of Canadian tax relative to such income.

c) Provincial tax credit:

Individuals who are liable to the payment of a provincial income tax may claim an abatement of 13 per cent of the federal tax otherwise payable on that part of their income subject to the provincial levy.

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 the 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

Canadian Personal Income Tax - 1959

	Income	Income Tax	OAS tax
Single taxpayer - no dependants	$ 1,200	$ 11	$ 3
	1,500	44	10
	2,000	99	23
	2,500	166	35
	3,000	236	48
	5,000	582	75
	10,000	1,781	75
	20,000	5,666	75
	50,000	21,206	75
	100,000	52,596	75
Married taxpayer - no dependants	2,200	22	3
	2,500	44	10
	3,000	99	23
	5,000	403	73
	10,000	1,495	75
	20,000	5,226	75
	50,000	20,666	75
	100,000	51,956	75
Married taxpayer - two children eligible for family allowances	2,800	22	5
	3,000	44	10
	5,000	318	60
	10,000	1,370	75
	20,000	5,006	75
	50,000	20,392	75
	100,000	51,632	75

In calculating these taxes it has been assumed that all taxpayers take the standard deductions of $100.

It has also been assumed that, where incomes are in excess of $30,000, that part of the income which is in excess of $30,000 is investment income and consequently subject to the 4 per cent surtax. No allowance has been made for the 20 per cent dividend tax credit.

The taxes shown above apply throughout Canada except in the Province of Quebec. Taxpayers in Quebec have their federal tax reduced by 13 per cent because Quebec also imposes an income tax on individuals.

Corporation Income Tax

The Income Tax Act levies a tax upon the income from everywhere 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, and also 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 and logging operations. They are allowed capital-cost allowances (depreciation) and corporations in certain natural-resource industries may also deduct depletion allowances.

The regulations covering capital-cost allowances permit the taxpayer to deduct, over a period of years, the actual capital 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.

Taxpayers operating mines, oil wells and gas wells are allowed a depletion allowance, usually computed as a percentage of profits, 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. In respect of timber limits, taxpayers receive an annual allowance sometimes called a depletion allowance. This is a rateable proportion of the amount invested in the limit, and, when the amount 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 corporation taxable income for 1959 are:

18 per cent on the first $25,000 of taxable income; plus 47 per cent on taxable income in excess of $25,000.

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 $25,000 of taxable income; plus 45 per cent on taxable income in excess of $25,000.

Corporations that qualify as investment companies pay a tax of 18 per cent on their taxable income.

In addition to the rates shown above, 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 referred to and 21 per cent for investment companies).

Certain tax credits are also extended to corporations. All corporations may deduct from their federal tax otherwise payable a tax credit equal to 9 per cent of their taxable income attributable to operations in a province that imposes a provincial corporation income tax (at present, only Ontario and Quebec). In addition, corporations may claim a credit against their Canadian tax for corporation income taxes paid to foreign countries.

Corporations are required to pay their taxes (combined income and old-age security taxes) in monthly instalments. In each of the last six months of their fiscal year and the three months following the end of their fiscal year, they must pay 1/12 of their estimated tax for the year. The estimate of the amount payable may be based on the income of the previous year or the estimated profits of the year in progress. In each of the following two months, they pay 1/3 of the estimated balance of the tax computed by reference to the profits of the taxation year. In the sixth month following the end of their fiscal year, the final return must be filed and the remainder of the tax paid for that year.

Taxation of Non-residents

A non-resident is liable to the payment of income tax if he was employed or was carrying on business in Canada during a taxation year. For all practical purposes, the expression "carrying on business in Canada" includes:

(a) maintaining a permanent establishment in Canada,
(b) maintaining a stock of goods in Canada,
(c) processing goods, even partially, in Canada,
(d) 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 this country by residents or employees of the other country.)

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. With certain exceptions this 15 per cent tax applies whether the income goes to non-resident individuals or corporations. One exception is for dividends paid by a wholly-owned subsidiary company in Canada to its parent company abroad. Here the rate is 5 per cent. (The requirement that the paying corporation must be a wholly-owned subsidiary to qualify for this 5 per cent rate is modified by several tax treaties with other countries). The tax is not collected on interest on bonds of, or guaranteed by, the Government of Canada or on interest payable in a foreign currency, and the rate is only 5 per cent on interest on provincial bonds. The rate on royalties on motion picture films is only 10 per cent.

This 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 tax returns in Canada.

Gift Tax

The Income Tax Act levies a tax upon gifts in order to discourage transfers that would lead to a reduction in the revenues from income and estate taxes. The rates range from 10 per cent on an aggregate taxable value of $5000 or under, to 28 per cent on an aggregate taxable value of over $1 million. Exemptions include complete exemption of gifts of $1000 or less and a general deduction of $4000 from aggregate taxable value.

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 of 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, whether situated in Canada or in foreign countries, 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) gift tax paid on recent gifts the amount of which is included in aggregate net value of the estate, and (3) foreign taxes.

No estate valued at less than $50,000 is subject to estate tax. This $50,000 is not an exemption but it is the starting-point for tax. It is also enacted that the estate tax will not reduce the value of an estate after tax to less than $50,000. The basic 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 orphaned by the death of the deceased.

The tax on the estates 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 basic amount is $19,000 plus 24 per cent of anything between $100,000 and $150,000. At $2 million of taxable value, the tax stands at $816,500 and the excess over $2 million is chargeable at the rate of 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 duties. The abatement is 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. There is no deduction allowed against the assessed value of such property except for debts specifically chargeable to it. However, there is a special provision which exempts all such property of less than $5,000 value and which also provides that the value of the property is not reduced by the tax to less than $5,000. The 50 per cent abatement referred to above also applies to this tax on property of decedents not domiciled in Canada where that property is subject to provincial duties.

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.

(a) 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. One important category is comprised of machinery and apparatus used in the process of manufacture or production of goods. The equipment to be exempt must enter directly into production. To illustrate, a stamping or cutting machine used in a factory is exempt from sales tax, while office equipment or delivery equipment used by the same manufacturer is not. This exemption was established to reduce to a minimum the effect of the tax as a cost of production. Similarly, most equipment used by farmers, fishermen, loggers and mining companies is also exempt.

Most building materials, foodstuffs, and fuels for lighting or heating are 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. Finally, a variety of items are made exempt from sales tax when purchased by municipalities for prescribed uses. These and other exemptions are set forth in schedules to the Excise Tax Act.

(b) 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, they are levied on exactly the same price as the general sales tax. Articles subject to special excise taxes include automobiles, jewellery, cosmetics, toilet articles, radios, record players and television sets. Tobacco products and wines are also taxed under the Excise Tax Act.

Table B attached lists the special excise taxes levied at present:

TABLE B

Special Excise Taxes - 1959

Item	Rate
Automobiles - for passenger use	7½ ad valorem
Cigarettes	2½ for 5 cigarettes
Cigars	15% ad valorem
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% ad valorem
Lighters	10% ad valorem
Playing cards	20¢ a pack
Radios, phonographs, television sets and tubes	15% ad valorem
Slot machines - coin, disc, or token operated games or amusement devices	10% ad valorem
Matches	10% ad valorem
Tobacco - pipe tobacco, cut tobacco and snuff	80¢ a lb.
Tobacco pipes, cigar and cigarette holders and cigarette rolling devices	10% ad valorem
Toilet Articles - including cosmetics, perfumes, shaving creams, antiseptics, etc.	10% ad valorem
Wines	
(a) non-sparkling - containing not more than 40 per cent proof spirits	50¢ a gallon
(b) non-sparkling - containing more than 7 per cent absolute alcohol by volume	25¢ a gallon
(c) sparkling wines -	$2.50 a gallon

(These taxes apply only to wines manufactured in Canada. The customs tariff on wines is set to take into account these taxes on domestic production.)

NOTE - all the above items 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).

Premiums of Insurance Companies - (not including marine insurance)	British or foreign firms not authorized to transact business in Canada - 10 per cent of net premium.

Excise Duties

The Excise Act levies taxes (referred to as duties) upon alcohol, alcoholic beverages and tobacco products produced in Canada. These duties are not levied on imported goods, but the customs tariff on these products is set at a rate to take into account 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 on the strength of proof distilled in Canada, $13.00;

(B) on every gallon on 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.

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 that 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 two and one-half pounds a thousand. $4.00 a thousand (nearly all of the cigarettes used in Canada are of this type);

(C) cigarettes weighing more than two and one-half pounds a thousand, $5.00 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	-	$1.00 a 1000, plus the 15 per cent special excise tax and the 11 per cent 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 were once the chief source of revenue for the country, have declined in importance as a source of revenue to the point where they now provide about 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 preferential or most-favoured-nation treatment. Few countries are in this category and, in 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 of Canada's ten provinces impose a wide variety of taxes to raise the revenue necessary for provincial purposes. As previously mentioned, only the Provinces of Ontario and Quebec impose income taxes and special taxes on corporations, and they are also the only provinces taxing property passing on death. Only Quebec imposes a personal income tax. Those provinces that do not impose these direct taxes receive substantial payments from the Federal Government to compensate them for renting these tax fields. In addition there is an arrangement under which the Federal Government makes payments to all the provinces except Ontario in recognition of the fact that the potential tax revenue from the fields of income tax and succession duties in those provinces, measured on a per capita basis, is lower than an agreed upon level.

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

Alcoholic Beverages

Generally speaking, the sale of spirits in all provinces is made through provincial agencies operating as boards or commissions that 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 or government stores depending on the province but in all cases they bear a provincial tax.

Taxes on Retail Sales

These taxes are levied on the final purchaser or user and are collected by the retailer. Six provinces now levy this type of tax at rates varying between 2 and 5 per cent. These provinces are Newfoundland, Nova Scotia, New Brunswick, Quebec, Saskatchewan and British Columbia.

Amusement Taxes

The ten provinces have taxes on admission to places of entertainment. In addition there is generally a licence fee imposed on the operator or owner of these amusement places. The tax on admissions is generally within the range of 5 per cent to 13 per cent.

Gasoline and Fuel-Oil Taxes

The ten provinces have imposed a tax on the purchase of gasoline by motorists and truckers. The rates vary from 10¢ a gallon in British Columbia and Alberta to 17¢ in Nova Scotia and Newfoundland. Ontario imposes a tax of 13¢ on gasoline and 18½¢ on diesel fuel. British Columbia also imposes a tax of 12¢ a gallon on diesel fuel and ½¢ a gallon on fuel oil used for heating.

Motor-Vehicle Licences and Fees

The provinces also levy 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.

Tax on Mining Operations

Six of the ten provinces levy a tax on the income of firms engaged in mining operations. The rates of these various provincial taxes are as follows:

Newfoundland	- 20% on iron ore		
	5% - all other		
New Brunswick	- 7% on excess over	$	10,000
	9% on excess over	$	5,000,000
Quebec	- 4% on excess over	$	10,000
	- 7% on excess over	$	3,000,000
Ontario	- 6% on excess over	$	10,000
	12% on excess over	$	5,000,000
Manitoba	- 8% on excess over	$	10,000
Saskatchewan	- 3% on excess over	$	10,000
	12.5% on excess over	$	1,000,000
British Columbia	10% on excess over	$	25,000

The Province of Nova Scotia imposes a tax on income from gypsum mining and the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Newfoundland impose a tax on the assessed value of minerals and a flat rate for every acre of land.

Tax on Logging Opererations

The Province of British Columbia and Ontario levy a tax on the income of firms engaged in logging operations. 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

The Province of Ontario 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

The Provinces of Quebec and Ontario have a place of business tax. In Quebec, the tax ranges from $20.00 to $50.00 for each place of business, the higher amounts being levied in the cities of Montreal and Quebec; in Ontario, the tax is at a uniform $50.00 an establishment.

Both provinces levy special taxes on certain kinds of companies, such as banks, railway companies, express companies, trust companies and sleeping, parlour, and dining-car companies. In Ontario, only the higher of the income tax or these special taxes in collected.

Premium Income of Insurance Companies

All ten provinces impose a tax of 2 per cent on the premium income of insurance companies derived from business transacted within the province.

Corporation Income Tax

Only the Provinces of Quebec and Ontario levy corporation income taxes. Corporations that maintain an office or carry on business in the Province of Quebec are liable to a provincial tax at the rate of 9 per cent on taxable income attributable to operations in the province. Where a corporation operates both inside and outside Quebec, the allocation of taxable income to operations in Quebec is based on sales made in the province. In general, taxable income is computed in a manner similar to that for federal taxable income, except that there is no deduction for losses of previous or subsequent years and depreciation is allowed on the straight line method.

The Province of Ontario imposes a corporate tax of 11 per cent on taxable income earned in Ontario. Under the Corporation Tax Act of Ontario, the determination of taxable income and the allocation of taxable income between Ontario and other jurisdictions follow the federal rule that gives equal weight to sales made and wages paid within the province.

Succession Duties

Only the Provinces of Ontario and Quebec levy succession duties.

Succession duties are a tax upon the right to succeed to property and are assessed upon the interest or benefit passing at death to an heir or beneficiary.

Both Ontario and Quebec 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 within the province is also liable.

The rates of succession duty are governed by the value of the estate, the relationship 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.

Personal Income

Only the Province of Quebec imposes a personal-income tax. Residents of Quebec are liable to the tax on their income from all sources. Non-residents of the province who are employed or carrying on business therein are liable for tax on that portion of their income earned in the province.

The personal exemptions are as follows:-

Single individual:	$1500
Married - no children:	$3000
Each child under 16:	$ 250
All other dependants:	$ 500 each

The Quebec Income Tax Act is closely patterned after the Federal Income Tax Act. It contains similar provisions regarding dividend tax credits, medical expenses and charitable donations. Like its federal counterpart, it uses a graduated rate scale. From 2.3 per cent on the first $1000 of taxable income the rates increase to a maximum of 12 per cent of the excess over $400,000.

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 determing 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, although certain localities have retained the use of a poll tax. In Saskatchewan, the municipalities are empowered to levy an amusement tax on the admission of persons to places of amusements. This practice differs from that of the other provinces where the amusement tax is generally a provincial preserve.

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.

Miscellaneous Levies

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

Unemployment Insurance

For the past two decades, 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. Although administered by a federal commission appointed for this purpose, this national unemployment insurance is 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:

Range of earnings	Weekly contributions employer's	employee's
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 $5460 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 health insurance plan has now been adopted by nine of the ten Canadian provinces. Under this arrangement, the Federal Government pays a certain portion of the cost of hospitalization for patients who are residents of the participating provinces. The provincial authorities will meet the rest of the cost and the money needed must be raised in the province. 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 if they wish to be covered by the plan. In other provinces the proceeds of a retail sales tax are earmarked in whole or in part for the support of the hospital plan.

September 1960

R/PA