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TAXATION IN CANADA

(Prepared by the Tax Policy Branch,
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Taxes are imposed in Canada by the Federal Government, by the provincial governments and by municipalities. The Government 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 use only the field of direct taxation and the Federal Government is not subject to any constitutional restriction in matters of taxation. Municipalities derive their incorporation with its associated powers, fiscal and otherwise, from the provincial governments concerned. Thus 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". 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 provincial legislation, tax real estate, water-consumption and places of business. The Federal Government levies taxes on income, excise taxes, excise and customs duties and a sales tax.

Starting in 1941, a series of federal-provincial tax agreements was concluded to promote the orderly imposition of direct taxes. The duration of each agreement was normally five years. Under the earlier agreements, the participating provinces undertook in return for compensation not to use, or permit their municipalities to use, certain of the direct taxes. Under more recent arrangements, the federal personal and corporation income tax otherwise payable in all provinces and the estate tax otherwise payable in three provinces was abated by certain percentages to make room for provincial levies.

Federal tax reform amendments passed in 1971, which became effective for the most part from the beginning of 1972, included a new personal income tax rate-structure which was not designed to be abated in the previous way. At the time, the federal estate tax was terminated. As a result, the arrangement under which federal taxes are abated has general application now only for the corporation income tax. All provinces impose taxes on the income of individuals and corporations and all but Alberta impose taxes on property passing at death. As part of the current fiscal arrangements, the Federal Government has entered into tax-collection agreements under which it collects provincial personal income taxes for all provinces except Quebec, provincial corporation income taxes for all provinces except Ontario and Quebec and provincial succession duties for all provinces except Quebec, Ontario, Alberta and British Columbia.

Federal Taxes

Individual Income Tax

Personal income taxation in Canada is imposed on the basis of residence. Every individual who is resident in Canada at any time during a year is liable for the payment of income tax on all his income. A non-resident individual is liable for tax only on income from sources in Canada. 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 statutory extensions of the meaning of "resident" to include a person who has sojourned in Canada for an aggregate 183 days in a taxation year, or a person who was during the year a member of the armed forces of Canada, 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 extended meaning of resident also includes employees who leave Canada to work under certain international development-assistance programs.

The Canadian tax law employs 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. Starting in 1972, it also includes one-half of capital gains.

In computing his income, an individual must include benefits from employment, fees, commissions, dividends, annuities, pension benefits, interest, alimony and maintenance payments. Also included are unemployment insurance benefits, scholarships in excess of $500, benefits under a disability insurance plan to which his employer contributes, and miscellaneous other items of income. On the other hand, war-service disability pensions paid by Canada or a country that was an ally of Her Majesty at the time of the war service, social-assistance payments made on a needs-test basis under a prescribed program, compensation in respect of an injury or death paid under a workmen's compensation act of a province and family-income security payments do not have to be included in the computation of income.

An employee does not have to include in his income allowances paid to him by his employer to cover travelling expenses to a distant work-site, or board and lodging while at the site. In order to qualify, the worker must travel away from his ordinary residence in which he supports his wife or other dependant, the work-site must be temporary and the time away from his ordinary residence must be at least 36 hours.

Certain amounts are deductible in computing income. These include contributions to a registered employees pension plan, premiums to a registered retirement savings plan, premiums under the unemployment insurance program, alimony payments and union dues. An employee may deduct 3 per cent of his salary or wages (up to a maximum of $150 a year) to cover expenses of earning his income. No receipts or details of actual expenditures are necessary to claim this deduction. Expenses of meals and lodging while away from home are deductible by employees who have to travel as they perform their work, such as employees who work on trains or who drive trucks. Where a mother has her children cared for in order that she may work, she may deduct this expense subject to certain limitations. A father may deduct child-care expenses where he is the only parent of the family or where the mother is incapable of caring for the children. Expenses of moving to a new work-location are deductible from income earned in the new location. These moving expenses may be deducted by salary- or wage-earners, self-employed persons and, in some instances, by students at post-secondary educational institutions. Students attending universities, colleges, high schools or certain other certified educational institutions in Canada may deduct their tuition fees if they exceed $25 a year. Students in full-time attendance at universities outside Canada are also allowed to deduct their tuition fees.

An individual who is carrying on a business may deduct his business expenses in computing his income. These include wages, rents, depreciation (called capital-cost allowance), municipal taxes, interest on borrowed money, reserves for doubtful debts, contributions to pension plans or profit-sharing plans for his employees, and bad debts.

All individuals now have to bring half their capital gains into income. They may deduct half their capital losses against these gains. In the event that half an individual's losses exceeds the amount included in income in respect of capital gains, $1,000 of these losses may be deducted from other income. Losses not deducted in the year incurred may be carried back one year or forward to future years to be deducted. Capital gains or losses are those realized on the disposition of property. Other gains or losses such as from a lottery or gambling are not included. The sale of personal property at a price not exceeding $1,000, and the sale of a taxpayer's home, do not create a capital gain or loss. A sale or disposition of property is deemed to have taken place when the taxpayer dies or makes a gift of property unless the property is left or given to his spouse. The amount of a capital gain or loss on disposition of property is determined by reference to its adjusted cost-base. Capital gains on property owned at the beginning of the system are computed by reference to the higher of cost or valuation-day value and capital losses by reference to the lower of cost or valuation-day value. When property is acquired after valuation day, actual cost plus or minus adjustments after that date will give the adjusted cost-base. Valuation day for purposes of shares which are publicly traded on Canadian stock-exchanges was December 22, 1971, and the valuation day for all other property, such as bonds, rental property, cottages or shares in a private company, was December 31, 1971. Special rules apply for individuals who become, or who cease to be, residents of Canada. Gains arising out of the conduct of a business continue to be fully taxable.

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

For single status	$1,500
For married status	$2,850

For dependent children under 16 years old	$ 300 a child
For other dependants (as defined in the law), including dependent children over 15 and under 21 or over 20 and attending school	$ 550 a dependant
Where taxpayer is 65 or over	additional $650
Where taxpayer is blind or confined for the whole of the taxation year to a bed or a wheelchair	additional $650
Charitable donations	up to 20 per cent of income
Medical expenses	the amount in excess of 3 per cent of income

In lieu of claiming deductions for charitable donations and medical expenses, an individual may claim a standard deduction of $100.

The extra deduction for married status is reduced where the taxpayer's spouse has income in excess of $250. The deduction of $300 for supporting a child is reduced where the child has income in excess of $1,000 and the deduction of $550 is reduced where the dependant has income in excess of $1,050.

The amount of the guaranteed income supplement, which is a payment made to individuals who have little or no income in addition to their old-age pension, is deductible in computing taxable income.

Individuals who have incurred business losses in other years may deduct these in computing taxable income.

As already stated, an individual who is resident in Canada 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 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 or pension 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 is subject to income tax as a resident of Canada on only that part of his income for the year received while he was resident in Canada. Under these circumstances, the deductions from income permitted in determining taxable income are the amounts that may reasonably be considered as applicable to the period during which he was resident in Canada.

A non-resident who disposes of taxable Canadian property (shares of Canadian public corporations are excluded unless ownership exceeds 25 per cent) is liable for tax on half of any capital gain. Capital gains or losses from the disposal of taxable Canadian property are combined with the non-resident's Canadian employment or business income. This taxation of capital gains is subject to restrictions in a number of tax treaties between Canada and other countries.

Two provisions were enacted in 1971 to provide for averaging income over a period of years where income for a year is unusually high. The first of these is an averaging calculation that will be made by the Department of National Revenue in which an individual's income for the year is 20 percent more than the average of his incomes for the preceding four years and 10 percent more than his income for the immediately-preceding year. This calculation, which will be made without application by the taxpayer, will reduce the effects of the progressive schedule of rates upon an unusual increase in income in the year. The calculation will first be made for 1973, using 1972 as the base. It will not be possible to use four preceding years in the base until 1976.

The second averaging device, which first becomes effective for 1972, is by the purchase of a special type of annuity contract called an income-averaging annuity. The cost of this annuity contract is deductible from income in the year it is purchased and the annuity payments are included in income when received. Only certain kinds of income may be used to purchase an income-averaging annuity. These include capital gains, a lump sum from a pension plan, proceeds from a literary or artistic work or amounts received from activities as an athlete, musician or public entertainer.

The amount of tax is determined by applying a progressive schedule of rates to taxable income. This schedule of rates starts at 17 per cent on the first $500 of taxable income and increases to 47 per cent on taxable income in excess of $60,000.

For 1972, tax otherwise payable is reduced by 3 per cent. In addition, the Income Tax Act provides that the rate of tax on the first $500 of taxable income, which is 17 per cent in 1972, will be reduced each year until it becomes 6 per cent in 1976.

Individuals who reside in the Yukon or Northwest Territories, or who reside outside of Canada but are deemed to be residents in Canada for tax purposes (such as diplomats and others posted outside the country), must pay an additional tax of 30 per cent of their tax otherwise payable. This tax is intended to correspond in an approximate way to the income tax imposed by the provinces on their residents.

An individual who receives a taxable dividend from a taxable Canadian corporation is allowed to deduct an amount called a dividend tax credit from his tax otherwise payable. This is in recognition of the fact that the earnings from which the dividend is paid have borne corporation income tax. It also provides encouragement for Canadians to participate in ownership of Canadian corporations. The individual increases the amount of the dividends he has received by one-third and includes this additional one-third in his income. He then deducts from his tax an amount equal to four-fifths of the additional one-third that was included in his income.

An individual who receives income from foreign sources may deduct from his tax the amount of tax he has paid to a foreign government on his foreign source income. This deduction may not exceed the Canadian tax related to such income.

An individual who earns income in the Province of Quebec may deduct 24 per cent of his tax attributable to such income. This abatement of tax is in recognition of the fact that Quebec entirely finances certain programs that are partly financed by the Federal Government in other provinces.

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 on or before April 30 in the following year. People with more than 25 per cent of their income in a form not subject to tax deductions at the source must pay tax by quarterly instalments throughout the year. Returns of these individuals must be filed on or before April 30 in the following calendar year. Farmers and fishermen pay two-thirds of their tax on or before December 31 each year and the remainder on or before April 30 in the following year.

The following table shows the amount of tax payable on various levels of income:

CANADIAN PERSONAL INCOME TAX IN 1972(1)

Status	Income $	Federal Income Tax $	Provincial Income Tax $
Single Taxpayer -- no dependants	1,600	-	-
	2,000	56	18
	2,500	140	44
	3,000	227	71
	5,000	599	188
	8,000	1,235	388
	10,000	1,705	536
	20,000	4,756	1,495
	50,000	16,241	5,107
	100,000	38,580	12,131
Married Taxpayer -- no dependants	3,000	-	-
	4,000	157	49
	5,000	336	106
	8,000	935	294
	10,000	1,379	434
	20,000	4,297	1,351
	50,000	15,677	4,929
	100,000	37,964	11,937
Married Taxpayer -- two children under age 16	4,000	54	17
	5,000	225	71
	8,000	813	256
	10,000	1,248	392
	20,000	4,093	1,287
	50,000	15,427	4,851
	100,000	37,690	11,851

(1) In calculating these taxes it has been assumed that all income is from salary or wages and all taxpayers take the standard deduction of $100 and the employment-expense deduction. No account has been taken of other deductions, such as for child-care expenses, unemployment-insurance contributions or the additional old-age deduction.

The federal tax shown is for income earned in any province except Quebec. The special 3 percent reduction in 1972 has been taken into account. The provincial income tax is calculated at 30.5 per cent of federal tax otherwise payable (i.e., before the special reduction of 3 per cent for 1972). Some provinces impose tax at a rate higher than 30.5 per cent.

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. Half of capital gains must be included in income.

In computing their income, corporations may deduct operating expenses, including municipal real-estate taxes, reserves for doubtful debts, and interest on borrowed money. The deduction for interest includes interest on money borrowed to acquire shares in another corporation. There is a limitation on the deduction of interest paid to certain non-residents. Half of capital losses may be deducted from the capital gains included in income.

Corporations may deduct over a period of years the capital cost of all depreciable property. The yearly deductions of normal capital-cost allowances are computed on the diminishing-balance principle. Regulations issued under authority of the Income Tax Act establish a number of classes of property and maximum rates. Typical rates include 5 per cent and 10 per cent for buildings, 20 per cent for machinery and 30 per cent for automobiles. Where property is disposed of for more than the amount to which it has been written down by capital-cost allowances, the excess allowances are "recaptured" through an addition to income or by an adjustment to the undepreciated balance for the class of property.

Accelerated depreciation (full write-off in two years) is allowed in respect of structures and equipment acquired in the period April 27, 1965, to December 31, 1973, to prevent water pollution and in the period March 13, 1970, to December 31, 1973, to prevent air-pollution.

A taxpayer who does not elect to receive a grant under the Training-on-the-Job Program may deduct 60 per cent of approved wage costs incurred in the period after October 1971 and before April 1974. This deduction is in addition to the normal deduction for wages. Expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred.

A corporation whose principal business is mining, oil-production and allied activities may deduct the costs of exploration and development in Canada against any income in the year the costs were incurred or in subsequent years.

Taxpayers who do not meet the "principal business" test are entitled to deduct exploration and development expenses from mining and petroleum income. Starting in 1972 these expenses will be deductible from other income over a period of time if they exceed mining and petroleum income.

Taxpayers may deduct certain foreign drilling expenses from directly related foreign-sources income. Starting in 1972, all taxpayers may put foreign exploration and development expenses in a separate asset class and deduct them over a period of time if they exceed income from foreign mineral and petroleum properties.

The profits derived during the first three years of operation of a new mine are exempt from income tax until December 31, 1973. In place of the three-year tax exemption, there will be an immediate write-off of capital equipment and facilities for a new mine to the extent of income from the mine. The assets eligible for this accelerated depreciation include buildings, mining machinery, processing facilities and "social capital" such as access roads, sewage-plants, housing, schools, airports and docks.

The accelerated write-off provision for new mines will also apply in the case of a major expansion of an existing mine where there has been at least a 25 percent increase in milling capacity. The list of eligible assets is the same as for new mines, except that "social capital" does not qualify.

Taxpayers operating mines, oil-wells, gas-wells and wells for extracting potash by the solution method have been allowed a depletion allowance, usually computed as a percentage of profits (after deduction of capital-cost allowances, exploration and drilling expenses and certain interest expenses) derived from mineral, oil or gas production. This allowance is in addition to capital-cost allowances on buildings, machinery and similar depreciable assets used by the taxpayer and the deduction of his exploration and drilling expenses. This will continue until the end of 1976, after which a taxpayer will be able to deduct depletion only if it has been "earned" by exploration. For every $3 of eligible expenditures, a taxpayer will earn the right to deduct $1 of depletion. Eligible expenditures made after November 7, 1969, can be accumulated for the purpose of calculating earned depletion for 1977 and subsequent years.

Taxpayers operating timber limits receive an annual cost allowance that is a rateable proportion of the amount invested in the limit and is based on the amount of timber cut in the year.

In computing taxable income, corporations, with certain exceptions, may deduct dividends received from other Canadian taxable corporations and also from certain non-resident affiliates. 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 20 per cent of their income.

The general rates of tax payable by corporations on their taxable income are as follows:

1972	- 50 per cent
1973	- 49 per cent
1974	- 48 per cent
1975	- 47 per cent
1976 and subsequent years	- 46 per cent

These rates of tax 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, provincial rates of corporate income tax range from 10 per cent to 13 per cent.

For profits earned in the period July 1, 1971, to December 31, 1972, there is a temporary tax reduction equal to 7 per cent of the tax otherwise payable before the 10 percentage points provincial abatement.

A "small-business deduction" reduces the rate of tax on certain business income to 25 per cent. This concession is restricted to Canadian corporations that are not controlled by a non-resident corporation 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 maximum amount of taxable income on which the deduction may be calculated is $50,000 in any one year. A corporation is entitled to this deduction only until it has accumulated $400,000 of taxable income commencing with taxation years starting after 1971. The payment of taxable dividends reduces the accumulation of taxable income for purposes of this limitation. The rate of 25 per cent referred to will not be affected by the gradual reduction in the general federal rate of corporation income tax between 1972 and 1976, but this 25 percent rate is reduced by the 10 percentage points provincial abatement.

A corporation that qualifies as an "investment corporation" pays tax at a rate of only 25 per cent. This rate is also reduced by the provincial abatement.

The investment income (other than dividends) of a private corporation is subject to the general rate of tax (i.e., 50 per cent in 1972 becoming 46 per cent in 1976 less the provincial abatement) but an amount not exceeding 25 per cent of this income is refunded when dividends are paid to shareholders.

Dividends received by a private corporation from a Canadian corporation controlled by it are deductible in computing its taxable income (except where paid out of designated surplus or under conditions that entitle the paying corporation to a refund). Dividends received by a private corporation from portfolio investments are subject to a special 33-1/3 percent tax, but this is refunded when dividends are paid to shareholders.

A corporation may elect to pay a special 15 percent tax on its 1971 undistributed income on hand. Dividends received from this tax-paid undistributed income are not included in the income of the receiving shareholder but the amount of the dividend will reduce the adjusted cost base of the shares for capital-gains tax purposes. Dividends paid from the untaxed half of a corporation's capital gains are also excluded from the income of the recipient shareholders but with no similar reduction in the adjusted cost base of the shares for capital gains tax purposes.

Special rules are provided for the taxation of special-purpose companies such as mutual fund corporations, life insurance companies, non-resident-owned investment companies and co-operatives.

In addition to the reduction equal to 10 per cent of taxable income earned in a province, a corporation may reduce its tax by a credit for taxes paid to foreign governments on foreign-source income. This credit may not exceed the Canadian tax related to such income. A corporation may also deduct from its tax an amount equal to 2/3 of a provincial tax on income from logging operations, not exceeding 6-2/3 per cent of its income from logging operations in the province.

(At present only Ontario,[(2)] Quebec, and British Columbia impose logging taxes.) Commencing in 1977, a mining corporation will be able to claim an extra federal tax abatement of 15 per cent of its production profits in a province.

Corporations are required to pay their tax by monthly instalments throughout their taxation year. Any balance of tax remaining has to be paid by the last day of the third month following the close of the taxation year and the return for the year must be filed by the last day of the sixth month following the close of the taxation year.

Taxation of Non-Residents

An individual or corporation not resident in Canada is liable for Canadian income tax on income from employment or from carrying on business in Canada and on one-half of capital gains less losses on disposals of "taxable Canadian property". For this purpose taxable Canadian property includes:

real property interests situated in Canada;

assets used in carrying on business in Canada;

interests in certain partnerships and trusts;

shares in a corporation resident in Canada other than a public corporation; and

shares in Canadian public corporations where the non-resident owns a 25 percent or greater interest.

The taxation of capital gains may be restricted by the provisions in tax treaties between Canada and other countries.

The expression "carrying on business in Canada" includes producing, growing, packaging or improving any article in Canada and also soliciting orders or offering anything for sale in Canada through an agent or servant. However, this is usually modified by tax treaties so that an enterprise of another country is taxed by Canada on its industrial and commercial profits only if it carries on business through a permanent establishment in this country. Tax treaties also provide some exemptions from tax on remuneration for services.

The taxable income of non-resident individuals derived from employment or carrying on business or from capital gains in Canada is taxed under the same schedule of rates as apply to Canadian resident individuals.

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(2) Ontario has announced that this tax is to be repealed in respect of taxation years ending on and after March 31, 1972.

Income earned by non-resident corporations carrying on business or from capital gains in Canada is taxed at the regular rates of corporation income tax. The distributable business earnings of a branch of a non-resident corporation are also subject to an additional tax often referred to as a branch tax. This tax applies to the branch earnings net of taxes that are not reinvested in the business in Canada. The branch tax, which is imposed at the same rate as the non-resident withholding tax on dividends referred to below, is designed to place non-resident corporations that carry on business through a branch in Canada in a comparable position to those non-residents that conduct their Canadian operations through a separate company incorporated in Canada.

Certain specific items of income paid to non-residents from sources in Canada are subject to tax withheld at the source by the Canadian payer. This non-resident withholding tax applies to interest (except interest on certain bonds and interest paid to certain exempt lenders), dividends, rents, royalties, management fees, income from a trust or estate, alimony, pension benefits (other than the old-age security pension and up to $1,290 of Canada Pension Plan or Quebec Pension Plan benefits), proceeds from deferred-income plans and the taxable portion of annuities. The rate of this tax is generally 15 per cent but the rate on royalties from motion-picture and television films is only 10 per cent and the standard rate of 15 per cent on dividends is reduced to 10 per cent in the case of dividends paid by a corporation that has a degree of Canadian ownership.(3)

The Income Tax Act provides that the rate of the above-mentioned non-resident withholding tax will become 25 per cent in 1976, except for the rate on dividends paid by a corporation with a degree of Canadian ownership, which will be 20 per cent. These rates may be modified by tax treaties.

Generally, non-residents who receive from sources in Canada only the kinds of income subject to the non-resident withholding tax do not file returns in Canada. However, those who receive rents on real property, timber royalties, pension benefits or proceeds from deferred-income plans may elect to file returns and be taxed at personal or corporation rates as the case may be.

Estate and Gift Taxes

The Federal Government formerly imposed an estate tax and a tax on gifts. These taxes do not apply in the case of a death occurring after 1971 or to a gift made after 1971.

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(3) Generally, a corporation is regarded as having a degree of Canadian ownership when 25 per cent of its equity and voting shares are owned by Canadians and/or corporations controlled in Canada, or when the voting shares of the corporation are listed on a Canadian stock exchange and no more than 75 per cent of its issued outstanding voting shares are owned by a non-resident alone or in combination with related persons. Also, at least 25 per cent of its directors must be resident in Canada.

Excise Taxes

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

The general sales tax is at the rate of 12 per cent. It 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. "Duty-paid value" includes the amount of customs duties, if any. 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. The rate of sales tax on a long list of building materials is 11 per cent instead of 12 per cent.

Some goods are exempt from sales tax. Drugs, electricity, fuels for lighting or heating and most foodstuffs are exempt, and also articles and materials purchased by public hospitals and certain welfare institutions. The products of farms, forests, mines and fisheries are, to a large extent, exempt, as well as most equipment used in farming and fishing. Machinery and equipment used directly in production and materials consumed or expended in production are also exempt and also equipment acquired by manufacturers or producers to prevent or reduce pollution to water, soil or air from their manufacturing operations. A number of items are exempt when purchased by municipalities. These and other exemptions are set forth in schedules to the Excise Tax Act.

The Excise Tax Act also imposes a number of special excise taxes that are in addition to the sales tax. Where these are *ad valorem* taxes, they are levied on the same price or duty-paid value as the general sales tax.

The special excise taxes levied at present are as follows:

Cigarettes	3 cents on 5 cigs.
Cigars	$17\frac{1}{2}$ per cent *ad valorem*
Pipe tobacco, cut tobacco, snuff	90 cents a lb.
Jewellery, including articles of ivory, amber, shell, precious or semi-precious stones, clocks, watches, goldsmiths' and silversmiths' products, except gold-plated or silver-plated ware for the preparation or serving of food or drink	10 per cent *ad valorem*
Lighters	10 cents a lighter
Playing cards	20 cents a pack
Slot machines - coin, disc or token-operated games or amusement devices	10 per cent *ad valorem*

Matches .... 10 per cent *ad valorem*

Tobacco pipes, cigar and cigarette holders and cigarette rolling devices .... 10 per cent *ad valorem*

Toilet articles, including cosmetics, perfumes, shaving creams, antiseptics, etc. .... 10 per cent *ad valorem*

Wines [4]

Wines of all kinds containing not more than 7 per cent absolute alcohol by volume .... 25 cents a gal.

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 gal.

Sparkling wines .... $2.50 a gal.

Wines (additional excise taxes) [5]

Wines of all kinds containing not more than 7 per cent of absolute alcohol by volume .... $2\frac{1}{2}$ cents a gal.

Wines of all kinds containing more than 7 per cent of absolute alcohol by volume .... 5 cents a gal.

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 per cent of net premium for property surety, fidelity and liability insurance (most other kinds of insurance are exempt).

All the foregoing items, except insurance premiums, are also subject to the general sales tax of 12 per cent. Cigarettes, cigars and tobacco are subject to additional taxes under the Excise Act (referred to as excise duties).

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(4) These taxes apply only to wines manufactured in Canada.

The customs tariff on wines includes a levy on imported wines to correspond to the taxes on domestic production.

(5) These taxes apply to both domestic and imported wines.

Excise 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. Exported goods are not subject to excise duties.

Spirits - The duties are on a proof gallon basis. 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 purposes. The various duties are as follows:

(A) on every gallon of the strength of proof distilled in Canada, $14.25;

(B) on every gallon of the strength of proof used in manufacture of

(a) medicines, extracts, pharmaceutical preparations, etc., $1.50 a gallon;

(b) approved chemical compositions, 15 cents 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 cents a gallon.

Canadian Brandy - Canadian brandy (a spirit distilled exclusively from juices of native fruits without the addition of sweetening materials) is subject to a duty of $12.25 a proof gallon.

Beer - All beer or other malt liquor is subject to a duty of 42 cents a gallon.

Tobacco, Cigars and Cigarettes - Excise duties are imposed on these products in addition to the special excise taxes that have already been described. The rates of excise duty are as follows:

(A) on manufactured tobacco of all descriptions, except cigarettes, 35 cents a pound;

(B) cigarettes weighing not more than three pounds a thousand, $4 a thousand (nearly all of the cigarettes used in Canada are of this type);

(C) cigarettes weighing more than three pounds a thousand, $5 a thousand;

(D) cigars, $2 a thousand;

(E) Canadian raw leaf tobacco when sold for consumption, 10 cents a pound.

Total Taxes on Tobacco Products

The aggregate of the taxes imposed on tobacco products under the Excise Tax Act and the duties imposed under the Excise Act is as follows:

Cigarettes	- $10 a thousand (or 20 cents a pack of 20 cigarettes) plus the 12 percent sales tax on the manufacturer's sale price;
Pipe and Cut Tobacco	- $1.25 a pound plus the 12 percent sales tax on the manufacturer's sale price;
Cigars	- $2 on 1,000 plus the $17\frac{1}{2}$ percent special excise tax and the 12 percent 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 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 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 British 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 of 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 the Provinces of Ontario and Quebec impose special taxes on corporations in addition to income tax. All the provinces except Alberta impose a tax on property passing at death; these are referred to as succession duties. These provinces also impose a tax on gifts.

The Federal Government makes "equalization payments" to some provinces in recognition of the fact that the potential tax yield in those provinces, measured on a *per capita* basis, is lower than the national *per capita* tax yield. 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 business income therein. An individual who is resident in a particular province on the last day of the year, and has no income for the year from a business with a permanent establishment outside the province, is taxable by the province on his world income for the year. Income earned from employment in a province by a non-resident of Canada is taxable by the province. Income earned by an individual not resident in a particular province from carrying on a business through a permanent establishment in that province is taxable by the said province.

In nine of the ten provinces, the provincial taxes are computed as a percentage of federal tax. "Federal tax" on which the provinces impose their tax is after the dividend tax credit but before any foreign tax credit or the special 3 percent reduction for 1972. In Quebec, provincial income tax is levied at graduated rates that progress from 10 per cent on the first $2,000 of taxable income to a maximum of 28 per cent on the excess over $60,000. The determination of taxable income for Quebec tax is based on exemptions and deductions that, with the exception of deductions for dependent children under 18, are similar to those for federal tax. Quebec taxpayers who have married status for tax purposes do not pay the provincial tax unless their income exceeds $4,000; all other Quebec taxpayers do not pay the tax unless their income exceeds $2,000.

The following table shows the percentage that provincial income tax liability is of federal tax for 1972:

Province	Percentage of federal tax
Newfoundland	36 per cent
Prince Edward Island	36 per cent
Nova Scotia	38.5 per cent
New Brunswick	41.5 per cent
Quebec - not directly related to federal tax but is approximately 58 per cent of federal tax	
Ontario	29.585 per cent
Manitoba	42.5 per cent
Saskatchewan	37 per cent
Alberta	36 per cent
British Columbia	30.5 per cent

All provinces except Quebec have signed agreements for the collection of their individual income tax by the Federal Government.

Corporate Income Tax

All provinces levy a tax on the taxable income 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 income for purposes of provincial tax follows closely the federal rules. The rates of tax levied by the various provinces are as follows:

Province	Rate of tax on taxable profits
Newfoundland	13 per cent
Prince Edward Island	10 per cent
Nova Scotia	10 per cent
New Brunswick	10 per cent
Quebec	12 per cent
Ontario	12 per cent
Manitoba	13 per cent
Saskatchewan	11 per cent
Alberta	11 per cent
British Columbia	10 per cent

All provinces except Ontario and Quebec have signed agreement for the collection of their corporate income taxes by the Federal Government.

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 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 taxes on the sale of alcoholic beverages.

Tobacco Products

All provinces except British Columbia impose special retail taxes upon the sale of tobacco products. The rates of tax on cigarettes are as follows:

Newfoundland	1/2 of one cent a cigarette
Prince Edward Island	2/5 " " " " "
Nova Scotia	2/5 " " " " "
New Brunswick	2/5 " " " " "
Quebec	2/5 " " " " "
Ontario	2/8 " " " " "
Manitoba	2/5 " " " " "
Saskatchewan	8/25 " " " " "
Alberta	8/25 " " " " "
British Columbia	8/25 " " " " "

In addition, the provinces impose special taxes on cigars and cut tobacco.

Retail Sales Taxes

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

Newfoundland	7 per cent
Prince Edward Island	8 per cent
Nova Scotia	7 per cent
New Brunswick	8 per cent
Quebec	8 per cent
Ontario	5 per cent
Manitoba	5 per cent
Saskatchewan	5 per cent
British Columbia	5 per cent

These direct levies apply to taxable commodities sold for consumption in the province. They do not apply to goods sold for delivery in the other provinces or to exported commodities. All provinces imposing sales taxes provide comprehensive exemptions for foodstuffs and drugs.

Gasoline and Diesel Fuel Oil Taxes

Each of the ten provinces imposes a tax on the purchase of gasoline and diesel fuel by motorists and truckers. The amount of tax borne by one gallon of motor vehicle fuel in each province is as follows:

	Gasoline	Diesel Fuel
Newfoundland	25 cents	25 cents
Prince Edward Island	21 cents	21 cents
Nova Scotia	21 cents	27 cents
New Brunswick	20 cents	23 cents
Quebec	19 cents	25 cents
Ontario	19 cents	25 cents
Manitoba	17 cents	20 cents
Saskatchewan	19 cents	21 cents
Alberta	15 cents	17 cents
British Columbia	15 cents	17 cents

Some provinces provide relief from this tax where fuel is used for farming or fishing operations, or other off-highway use.

Motor-Vehicle Licences and Fees

Each province levies a fee on the compulsory annual registration of motor vehicles. The rates of this licence fee vary from province to province, and in the case of passenger-cars may be assessed on the weight or the wheel-base 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. The licences are valid for periods of from one to five years and the fees range from $1 to $7 a year.

Amusement Taxes

Each of the provinces with the exception of Newfoundland, Alberta, Saskatchewan and British Columbia has a tax on admission to places of entertainment. In Quebec this tax is payable on race-course admissions only. In addition, there is generally a licence fee imposed on the operator or owner of these amusement places. The tax on admissions is within the range of 5 per cent to 15 per cent.

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 and Manitoba impose a tax on the assessed value of minerals or a flat rate an acre of mining property. Quebec levies a tax on the economic value of ore at the pit-head ranging between 9 per cent and 15 per cent, depending on the volume. Ontario imposes a tax on the profit on the assessed value of minerals and a flat rate an acre of mining property. Manitoba imposes a rate of 15 per cent if mining income exceeds $50,000. The British Columbia mining-tax rate is 15 per cent on net income from mining in excess of $10,000.

Tax on Logging Operations

Quebec, Ontario and British Columbia levy a tax on the income from logging operations of individuals, partnerships, associations or corporations. In Quebec and Ontario the rate is 10 per cent, and in British Columbia 15 per cent on net income where in excess of $10,000 (in Quebec and British Columbia[6], if the net income is greater than $10,000, the whole amount is taxable with no basic exemption). In Ontario and Quebec one-third, and in British Columbia 20 per cent, of the tax is allowed as a deduction from provincial corporate income tax or, in Quebec, from the provincial income tax; two-thirds of the provincial tax is deductible from federal income tax.

Business Taxes

Quebec imposes a tax of 1/5 of 1 per cent on paid-up capital of corporations and Ontario levies a similar tax at the rate of 1/10 of 1 per cent.

Quebec and Ontario have a place-of-business tax. In Quebec, the tax is generally $50 but is reduced to $25 when the paid-up capital is less than $25,000; in the case of loan companies, the tax is $100 when capital paid up is $100,000 or more. In Ontario, the tax for each permanent establishment is the lesser of $50 or one twentieth of 1 per cent of the 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 holds assets. A corporation that does not maintain a permanent establishment in Ontario but is represented by a resident employee or agent who is not deemed to operate a permanent establishment of the corporation in the province must pay an office tax of $50 or one-tenth of 1 per cent of the total amount of its gross Ontario sales or revenue if less than $50,000, subject to a minimum office tax of $5.

Both provinces levy special taxes on certain kinds of company such as banks, railway companies, express companies, trust companies and sleeping-car, parlour-car and dining-car companies. In Ontario, these special taxes (except the tax payable by insurance corporations calculated on gross premiums) and the capital and place-of-business taxes are payable only to the extent that they exceed the corporate income tax otherwise payable.

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(6) To be repealed for taxation years ending on and after March 31, 1972.

Prince Edward Island charges special annual licence fees to most insurance companies, banks, acceptance companies, chain-theatres and chain-stores, steamship companies, telephone, telegraph and electric-light companies and brokers, as well as nominal licence fees to other incorporated companies, the latter being similar to filing fees in other provinces.

Land Transfer Taxes

Ontario, Manitoba and Alberta levy a tax based on the price at which ownership of land is transferred. In Ontario, one-fifth of 1 per cent is imposed on purchase price up to $25,000 and two-fifths of 1 per cent on anything in excess of this amount. In Manitoba the rate is 1 per cent. In Alberta, registration fees proportionate to the conveyancing services rendered are charged and, in the case of transfers and mortgages, the fees are assessed on the value of the land transferred or on the amount of the mortgage. In addition, there is an Assurance Fund fee charged on transfers and mortgages which guarantees titles in certain circumstances.

British Columbia and Saskatchewan do not have a land-transfer tax but have an equivalent in land-title fees 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:

Share sold, transferred or assigned valued at:

Under $ 1	-	1/10 of 1 per cent of value
1 to 5	-	1/4 cents a share
5 to 25	-	1 cent a share
25 to 50	-	2 cents a share
50 to 75	-	3 cents a share
75 to 150	-	4 cents a share
Over 150	-	4 cents a share plus 1/10 of 1 per cent of value in excess of $150.

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

Tax on Premium Income of Insurance Companies

All ten provinces impose a tax of 2 per cent on the premium income of insurance companies in respect of risks incurred in the province. Saskatchewan imposes a tax of 1 per cent on the motor-vehicle premium income of insurance companies to finance a comprehensive high-school driver-training program.

Succession Duties and Gift Taxes

All the provinces except Alberta levy succession duties. These duties are a tax upon a succession to property of a deceased person by his beneficiary.

Ontario, Quebec and British Columbia collect their own succession duties. The four Atlantic Provinces and Manitoba and Saskatchewan reimposed succession duties with effect from January 1, 1972. The duties levied by these six provinces will be collected by the Federal Government as agent under three-year collection agreements.

All the provinces except Alberta levy a gift tax. This is a tax on the total value of gifts made in the year by a living person resident in the province. It is intended primarily to protect the revenue from succession duties. For all provinces except Quebec and Alberta the tax will be collected by the Federal Government as agent under collection agreements. Quebec administers its own gift tax.

Race-Track Taxes

Ontario levies a tax on operators of race meets and on holders of winning tickets issued under the pari-mutuel system. Holders of winning tickets must pay a tax equal to 7 per cent of the amount that would be payable to them if no percentage were deducted by the person holding the race meet. A number of other provinces levy a pari-mutuel tax on money bet in the province on horse races.

Municipal Taxes

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 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 Newfoundland, Quebec and Saskatchewan, municipalities are empowered to levy a tax on the admission of persons to places of entertainment. Electricity and gas are taxed at the consumer level in some Western and in some New Brunswick municipalities, and coal and fuel oil for heating purposes are chargeable in urban areas of Newfoundland. Telephone-subscribers are subject to a special levy in Montreal and 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, and 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.

Canada and Quebec Pension Plans

The Canada Pension Plan is a compulsory government-operated pension program under which each contributor builds up a right to a pension, the amount of which is related to his earnings up to a certain level. This graduated benefit will supplement the universal old-age security pension paid out of tax revenues. It operates throughout the country except in Quebec, where a similar pension plan is operated by the government of the province. Both plans have disability and survivor benefits. The maximum amount contributed by an employee in 1972 is $88.20. The employee's contribution is matched by a contribution by his employer.

Unemployment Insurance

A national program of unemployment insurance operates in Canada. Amendments in 1971 made substantial changes. The program now provides benefits to qualified persons who are temporarily without work, including persons unable to work because of sickness, disability or pregnancy. The program is administered by a federal commission appointed for this purpose. It is generally financed by contributions from both employees and employers. But when the national unemployment rate exceeds 4 per cent, or in certain circumstances when the regional unemployment rate exceeds the national unemployment rate, the Federal Government bears costs arising on these accounts. The amount of an employee's contribution is calculated weekly at a rate of 0.9 per cent of earnings to a maximum of $1.35 a week. The employer's rate of contribution in respect of an employee varies according to the "risk of lay-off factor", which varies according to the type of industry of the employer. Both the employee's and the employer's contribution rate may be scaled down if the employer provides his employees with a sickness and disability insurance plan meeting specific standards. Furthermore, a reduced scale of contributions operates in respect of groups of employees that have been brought into the unemployment insurance plan for the first time in 1972 under the new legislation. The reduced scale of contributions applies for 1972, 1973 and 1974, during which the rates are respectively 40 per cent, 60 per cent and 80 per cent of the contribution otherwise payable.

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 proportionate to the hazards of the industry.

Hospital Insurance

A hospital-insurance plan is in operation in each of the ten provinces. In all provinces but Quebec, the program is a joint federal-provincial undertaking under which approximately half the cost of hospitalization for patients who are participants under the plan is met by the Federal Government and the remainder by the province. In Quebec the program is entirely a provincial undertaking. The share of cost normally carried by the Federal Government in the other provinces has been assumed by Quebec in exchange for fiscal compensation by way of a larger occupation of the field of personal income tax. Some provinces finance their share of the cost of the program by taxes, and other 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, self-employed people must also pay the premium directly if they wish to be covered by the plan. In some provinces, the proceeds of a retail-sales tax are earmarked in whole or in part for the support of the hospital plan.

Medicare

A national medicare plan involving the joint participation of federal and provincial governments now operates in all provinces. As in the case of hospital insurance, this program requires approximately a 50 percent financing contribution from both levels of government. In some provinces premiums must be paid for this plan; in others the provincial share is raised through taxation.

(This explanatory paper, which was issued before the May 8, 1972, budget was brought down, 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.)

RP/A