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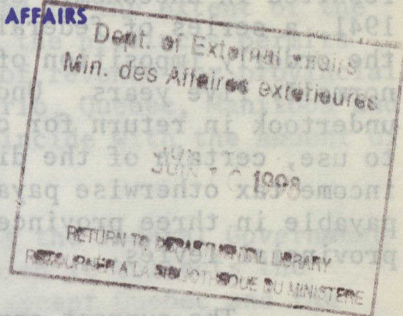

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TAXATION IN CANADA

(Prepared by 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 to raise "money by any mode or system of taxation", while the provincial legislatures are restricted to "direct taxation within the province in order to the raising of a revenue for provincial purposes". Thus the provinces have a right to share only in the field of direct taxation, while the Federal Government is not restricted in any way in matters of taxation. The British North America Act also empowers 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 "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 the guidance of provincial legislation, tax real estate, water consumption and places of business. The Federal Government levies direct taxes on income, on gifts, and on the estates of deceased persons and indirect taxes such as excise taxes, excise and customs duties, and a sales tax.

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The increasing use by both the Federal Government and the provincial governments of their rights in the field of direct taxation in the 1930s resulted in uneconomic duplication and some severe tax levies. Starting in 1941, a series of federal-provincial tax agreements were 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 the present arrangements the federal income tax otherwise payable in all provinces and the estate tax otherwise payable in three provinces are abated by certain percentages to make room for provincial levies.

The current arrangements became operative on April 1, 1962, and will run until March 31, 1967. They amount to a partial federal withdrawal from the field of direct taxation and a re-entry of all provinces in the vacated area. The federal personal income tax otherwise payable on income earned in a province and on income received by a resident of a province is reduced by the following percentages:

16% in 1962
17% in 1963
18% in 1964
21% in 1965
24% in 1966.

In 1965 and 1966, the pertinent abatements in respect of income earned in Quebec or received by a resident of Quebec are 44 per cent and 47 per cent, respectively. The additional 23 percentage points of abatement in the case of Quebec is to allow that province to collect revenue to pay for certain programmes that are paid for in whole or in part by the Federal Government in other provinces.

The Federal Government also reduces its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 per cent of taxable income earned in any province except Quebec and 10 per cent of taxable income earned in Quebec. The additional 1 percent reduction in respect of taxable income earned in Quebec is to compensate for the additional tax levied by that province on corporation income to provide grants to universities. These provincial grants replace federal grants which, in other provinces, are paid to the universities by the Federal Government through the Canadian Universities Foundation.

The Federal Government also abates the federal estate tax otherwise payable by 75 per cent in respect of property situated in a province that levies its own death tax.* Only Ontario, Quebec and British Columbia now levy death taxes in the form of succession duties.

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* The original agreement was for a 50 percent abatement. However, at the conclusion of a federal-provincial conference in late 1963, it was increased to 75 per cent in respect of deaths occurring after March 31, 1964. Currently, only the estates of domiciliaries of British Columbia qualify for the full 75 percent abatement. Quebec and Ontario estates are temporarily eligible for only 50 per cent because these two provinces have elected for the time being to take a payment from the Federal Government on account of the additional 25 percent abatement rather than to increase their succession duty rates.

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

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

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

Federal Taxes

Individual Income Tax

Personal income taxation in Canada is on the basis of residence rather than citizenship.

Every individual who is resident in Canada at any time during a year is liable for the payment of income tax for that year. Every non-resident individual who is employed or carries on business in Canada during a year is required to pay tax on the part of his income earned in Canada. The term "residence" is difficult to define simply but, generally speaking, it is taken to be the place where a person resides or where he maintains a dwelling ready at all times for his use. There are also extensions of the meaning of Canadian resident to include a person who has sojourned in Canada for an aggregate period of 183 days in a taxation year, or a person who was, during the year, a member of the armed forces of Canada, or an ambassador, a high commissioner, or an officer or servant of Canada or of any one of its provinces, or the spouse or dependent child of any such person.*

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

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

*See also Section 139(3)(c), which extends residence to employees under certain development-assistance programmes.

In computing his income, an individual who is carrying on business may deduct business expenses including depreciation (called capital-cost allowances), interest on borrowed money, reserves for doubtful debts, contributions to pension plans or deferred profit-sharing plans for his employees, bad debts, and expenses incurred for scientific research. In general, no deductions are allowed in computing income from salary and wages, although there are exceptions. These exceptions include travelling expenses of employees who have to travel as they perform their work (such as employees on trains), union dues, alimony payments, and contributions to registered pension plans. Individuals may deduct, within limits, amounts set aside to provide a future income under registered retirement savings plans. Students attending universities, colleges, high schools, public schools or certain other certified educational institutions in Canada may deduct their tuition fees if they exceed $25 per annum. Students in full-time attendance at universities outside Canada are also allowed to deduct their tuition fees.

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

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

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

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* Family allowances are monthly welfare payments by the Federal Government to the parents or guardians of children under 16 years of age. The allowance is $6 for each child under 10 years of age and $8 for each child between the ages of 10 and 16. These allowances are not subject to income tax. Payments are also made in respect of children between the ages of 16 and 18 in full-time attendance at educational institutions. Such payments are called youth allowances and amount to $10 a month. The right to deduct $550 for a dependent child is not affected by the receipt of these youth allowances.

** For 1966 and subsequent taxation years this special deduction will not be granted to taxpayers under 70 years of age who receive an old-age security pension.

As already stated, 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 carries on business in Canada, or who earns salary or wages in Canada, is taxed only on the income earned in Canada. In computing taxable income earned in Canada such a non-resident is allowed to deduct that part of the exemptions and deductions that may reasonably be attributed to the income earned in Canada. (A non-resident who derives investment income from Canada is taxed in a different way described under a separate heading.) An individual who ceases to be a resident of Canada during the year, or who becomes a resident during the year so that he is resident for only part of the year, will be subject to income tax in Canada on only that part of his income for the year received while he is resident in Canada. Under these circumstances, the deductions from income permitted for determining taxable income will be the amount 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. These rates begin at 11 per cent on the first $1,000 of taxable income and increase to 80 per cent on taxable income in excess of $400,000. In addition, an old-age security tax is levied on taxable income at the rate of 4 per cent with a maximum of $120 reached at the level of $3,000.

After calculating income tax using this progressive schedule of rates, an individual is allowed a deduction from such tax under four main headings:

a) Dividend tax credit:

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

b) Foreign tax credit:

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

c) Abatement under federal-provincial arrangements:

In 1966, the federal personal income tax otherwise payable on income of a resident of a province and on income earned in a province is reduced by 24 per cent.*

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* Except in the case of income earned in Quebec or received by a resident of Quebec, where it is reduced by 47 per cent. (See Introduction.)

d) General tax reduction:

In 1966, all persons may deduct from their federal income tax an amount equal to the aggregate of

(i) 4 per cent of their "basic" tax, not exceeding $240, and

(ii) 12 per cent of their "basic" tax, not exceeding $12.*

In 1967, and in subsequent taxation years, this deduction will be the lesser of 20 per cent of "basic tax" or $20. "Basic tax" is personal income tax excluding the old-age security tax after deduction of the dividend tax credit but before abatement for provincial income tax.

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

Table A follows, showing what taxpayers pay at various levels of income:

TABLE A

Canadian Personal Income Tax in 1966

	Income	Income Tax	O.A.S. Tax
Single taxpayer - no dependants	$ 1,200	9	4
	1,500	37	16
	2,000	83	36
	2,500	147	56
	3,000	215	76
	5,000	555	120
	10,000	1,754	120
	20,000	5,580	120
	50,000	20,713	120
	100,000	50,603	120

*The two tax reductions for 1966 result from the fact that the 1966 Budget brought down on March 29, 1966, announced the cancellation of the general tax reduction of 10 per cent of "basic tax" (maximum $600) enacted in 1965 and its replacement by a reduction of 20 per cent of "basic tax" (maximum $20). As it was not intended that the change be retroactive, the previous reduction was maintained in force for 40 per cent of the 1966 taxation year and its replacement for the remainder or 60 per cent of the year.

TABLE A (Cont'd.)

Canadian Personal Income Tax in 1966

	Income	Income Tax	O.A.S. Tax
Married taxpayer - no dependants	2,200	9	4
	2,500	37	16
	3,000	83	36
	5,000	375	116
	10,000	1,470	120
	20,000	5,148	120
	50,000	20,163	120
	100,000	49,953	120
Married taxpayer - two children eligible for family allowances	2,800	9	4
	3,000	28	12
	5,000	277	92
	10,000	1,320	120
	20,000	4,889	120
	50,000	19,833	120
	100,000	49,563	120

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

The income taxes shown above are the combined federal and provincial taxes in all provinces where the provincial tax is the same as the federal abatement (i.e. in all provinces except Quebec, Manitoba and Saskatchewan). In Quebec the provincial tax approximates the federal abatement. In Manitoba and Saskatchewan the provincial tax exceeds the abatement by 5 percentage points.

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, reserves for doubtful debts, bad debts, and interest on borrowed money. They may not deduct provincial income taxes other than provincial taxes on income derived from mining operations. (For this purpose "income from mining operations" is specially defined.)

Regulations covering capital-cost allowances (depreciation) permit taxpayers to deduct over a period of years the actual cost of all depreciable property. The yearly deductions of normal 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.

Accelerated depreciation is available to taxpayers in certain circumstances and for a limited period of time. Straight-line depreciation at a rate not exceeding 50 per cent is granted in respect of new machinery and equipment that would otherwise fall in Class 8 of the Income Tax Regulations acquired in the period June 14, 1963, to December 31, 1966, for use in manufacturing or processing businesses by individuals resident in Canada or by companies resident in Canada that have a degree of Canadian ownership. A company that has a degree of Canadian ownership is one which, throughout the 60-day period included in the 120-day period commencing 60 days before the first day of the year in question, complies with the following conditions:

(1) it was resident in Canada;

(2) not less than 25 per cent of its directors were residents of Canada; and

(3) either

(a) not less than 25 per cent of its shares having full voting rights and shares representing not less than 25 per cent of its equity-share capital were owned by individuals resident in Canada or corporations controlled in Canada; or

(b) a class or classes of its shares having full voting rights were listed on a Canadian stock exchange and no one non-resident person and no one corporation that did not comply with (a) above owned more than 75 per cent of the shares having full voting rights, and equity shares of the corporation representing not less than 50 per cent of the equity-share capital of the corporation were listed on a Canadian stock exchange and no one non-resident person or no one corporation that did not comply with (a) above owned equity shares representing more than 75 per cent of its equity-share capital.

For new manufacturing or processing businesses in designated areas of slower growth, there is no requirement that they have a degree of Canadian ownership to qualify for this 50 percent straight-line depreciation. Moreover, the period during which their expenditures on eligible assets qualify for accelerated write-off extends from December 5, 1963, to March 31, 1967. Depreciation at the accelerated rate of 20 per cent on a straight-line basis is also available

in respect of new buildings acquired in designated areas of slower growth in the period commencing on December 5, 1963, and ending on March 31, 1967.

Accelerated depreciation is also allowed in respect of new buildings or other structures for grain storage acquired in the period May 1, 1965, to December 31, 1966* (full write-off in four years) and in respect of property acquired in the period April 27, 1965, to December 31, 1967, to prevent water pollution (full write-off in two years).

The 1966 Budget announced the temporary reductions of the capital-cost allowances that could otherwise be claimed for certain classes of assets acquired during the period March 30, 1966, to October 1, 1967. The reductions will operate by recognizing in the taxation year in which the property is acquired and in the next two taxation years part only of the cost for capital-cost allowance purposes. The principal classes of assets affected include most kinds of buildings and machinery and equipment with the exception of heavy construction equipment,** pipelines and the generating and distributing equipment of public utilities. Assets eligible for accelerated depreciation (under programmes to promote the acquisition of "degree of Canadian ownership" status or the development of "designated areas") are not affected by this curtailment of normal capital-cost allowances.

Expenditures on scientific research by corporations qualify for special tax treatment. Generally speaking, all expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred. In addition, in computing income for tax purposes, corporations are permitted to deduct 150 per cent of their increased expenditures on scientific research in Canada. This special concession is available until the end of the 1966 taxation year.

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

In computing taxable income, corporations may deduct dividends received from other Canadian taxpaying corporations and also from foreign corporations in which the Canadian corporation has at least 25 percent 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.

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* Authority is granted to extend the date by which buildings or structures must be completed in certain circumstances.

** An exception has recently been provided for automotive equipment.

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

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

(1) Foreign tax credit - foreign taxes paid on income from foreign sources may be credited against Canadian income tax but the credit may not exceed the proportion of Canadian tax related to such income.

(2) Abatement under federal-provincial arrangements - corporations may deduct from their federal tax otherwise payable a tax abatement equal to a fixed percentage of their taxable income attributable to operations in a Canadian province. This abatement is to make room for the provincial income tax levied by each Canadian province. The amount of the abatement is 9 per cent of taxable income attributable to operations in any province except Quebec and 10 per cent of taxable income attributable to operations in Quebec.

(3) Provincial logging tax - corporations may deduct from their federal tax otherwise payable an amount equal to two-thirds of a provincial tax on income from logging operations not exceeding two-thirds of 10 per cent of the corporation's income from logging operations in the province. (At present only Ontario, Quebec and British Columbia impose logging taxes.)

Income from the operation of a new mine, including wells for extracting potash by the solution method, is exempt from income tax during the first three years of the productive life of these assets. Income from a new manufacturing or processing business established in a designated area of slower growth during the period commencing on December 5, 1963, and terminating on March 31, 1967, is eligible for a three-year exemption from income tax.

Corporations are required to pay their tax (combined income and old-age security tax) in monthly instalments, but the period during which they pay tax for a taxation year does not coincide with that taxation year. In each of the last eight months of their taxation year and in the following two, they pay a twelfth of their estimated tax for the year (such estimate is based on the taxable income of the previous year or the estimated taxable income of the year in progress). In each of the following two months, they pay half of the estimated balance of the tax computed by reference to the income of the taxation year. In the sixth month following the end of their taxation year, the final return has to be filed.

Special Refundable Tax on the Cash Profits of Corporations*

For economic stabilization purposes, the 1966 Budget announced a temporary tax of 5 per cent on the cash profits of corporations payable monthly over an 18-month period beginning in May 1966. The amounts collected under the measure will be repaid with interest at 5 per cent after an interval of 18 to 36 months from receipt. The monthly payments are to be made on an estimated base computed by reference to the present or immediately preceding taxation year, subject to adjustment at the end of the year.

The base for the tax is the taxable income of the corporation less federal and provincial taxes payable thereon, less a basic exemption of $30,000, less principal payments due and made on debt of the corporation having original term of three years or more and having been contracted for under written arrangements in existence on March 29, 1966 (this deduction is subject to certain limits), plus certain amounts which were deducted in arriving at taxable income but that do not deplete the cash position of the corporation (such as capital-cost allowances and depletion).

Taxation of Non-Residents

A non-resident is liable for payment of income tax if he was employed or was carrying on business in Canada during a taxation year. The expression "carrying on business in Canada" includes: (1) maintaining a permanent establishment in Canada; (2) processing goods even partially in Canada; and (3) entering into contracts in Canada.

The taxable income of a non-resident individual derived from carrying on business in Canada or from employment in Canada is taxed under the same schedule of rates as Canadian resident individuals, and non-resident corporations deriving income from carrying on business in Canada are taxed on their taxable income attributable to operations in Canada at the same rates as Canadian resident corporations. (Tax treaties with some countries provide certain exemptions from tax for remuneration for services performed in Canada by residents or employees of these countries. They also prohibit Canada taxing profits of a non-resident enterprise unless that enterprise has a permanent establishment in Canada.)

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 (other than interest on government bonds issued after April 15, 1966), dividends, rentals, royalties, income from a trust or estate and alimony. This tax applies whether the income goes to non-resident individuals or corporations. The rate on royalties from motion picture films is only 10 per cent. The standard rate of 15 per cent is also reduced to 10 per cent in the case of dividends paid by a company that has a degree of Canadian ownership.** This non-resident tax is withheld at the source by the Canadian payer. Non-residents who receive only this kind of income from Canada do not file returns in Canada.

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* This tax is also payable on business income and rental income of trusts.

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

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

Gift Tax

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

Estate Tax

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

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

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

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* This $4,000 exemption from aggregate taxable value is in addition to the complete exemption of gifts of $1,000 or less per donee.

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 tax is $19,000 and anything between $100,000 and $150,000 is taxed at 24 per cent. At $2 million of taxable value, the tax is $816,500 and the excess over $2 million is chargeable at the highest rate of 54 per cent. (For the complete rate schedule see Section 8 of the Estate Tax Act.)

As stated above, there is an abatement from federal estate taxes otherwise payable, in respect of provincial succession duties. Generally, the abatement is a deduction of 75 per cent from the federal tax otherwise payable in respect of property situated in a province that levies succession duties.*

The property situated in Canada of a decedent not domiciled in Canada is subject to estate tax at a flat rate of 15 per cent. No deduction is allowed against the assessed value of such property except for debts specifically chargeable to it. However, there is a special provision that exempts all such property of less than $5,000 value and also provides that the tax must not reduce the value of the property to less than $5,000. (The Estate Tax Convention between Canada and the United States increases this figure to $15,000.) Where property is subject to provincial duties the 15 percent tax is abated by 75 per cent.

Excise Taxes

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

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 percent tax bringing the total sales tax to 11 per cent.

Many classes of goods are exempt from sales tax. Food-stuffs, electricity, and fuels for lighting or heating are generally exempt from the levy as well as articles and materials used by public hospitals. The products of farms, forests, mines and fisheries are, to a large extent, exempt, as well as most equipment used in farming and fishing. Materials consumed or expended in production are also relieved of the levy. Finally, a variety of items are exempt from sales tax when purchased by municipalities. These and other exemptions are set forth in schedules to the Excise Tax Act.

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*At present the abatement in respect of Quebec and Ontario estates is 50 per cent. It will go up to 75 per cent when these two provinces increase their succession duty rates. See Introduction.

The 1966 Budget announced that machinery and equipment used directly in the manufacture or production of goods would be relieved of tax over a two-year period. Effective March 30, 1966, full exemption is extended to dies, moulds, jigs, fixtures and the cutting or shaping parts of machines. On April 1, 1967, a comprehensive list of other production machinery and equipment will become subject to a reduced rate of 6 per cent and on April 1, 1968, the same goods will be granted full exemption from the levy.

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

The special excise taxes levied at present are as follows:

Item	Tax
Cigarettes	2½¢ on 5 cigs.
Cigars	15% ad valorem
Jewellery, including clocks, watches, 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¢ a lighter
Playing cards	20¢ a pack
Radios	the greater of $2 a radio or 15% ad valorem
Phonographs and television sets	15% ad valorem
Tubes for radios, phonographs and television sets, not including television picture tubes, priced under $5 a tube	10¢ a tube
Television set picture 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 - *	
Wines of all kinds containing not more than 7% absolute alcohol by volume	25¢ a gal.
Non-sparkling wines containing more than 7% absolute alcohol by volume but not more than 40% proof spirit..............................	50¢ a gal.
Sparkling wines...............................	$2.50 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% of net premium for property surety, fidelity and liability insurance. (Most other kinds of insurance are exempt.)

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

Excise Duties

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

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

(A) on every gallon of the strength of proof distilled in Canada, $13.00;

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

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

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

(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, a spirit distilled exclusively from juices of native fruits without the addition of sweetening materials, is subject to a duty of $11.00 a gallon.

3. Beer - All beer or other malt liquor is subject to a duty of 38¢ a gallon.

4. Tobacco, Cigars and Cigarettes - The excise duties make up nearly as large a part of the total tax on tobacco products as the special excise taxes which have already been described. The rates of duty are as follows:

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

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

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

(d) cigars, $2.00 a thousand;

(e) Canadian raw leaf tobacco when sold for consumption, 10¢ a pound.

Total taxes 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 percent sales tax on the manufacturer's sale price.

Manufactured - Tobacco - $1.15 a pound plus the 11 percent sales tax on the manufacturer's sale price.

Cigars - $2.00 a thousand plus the 15 percent special excise tax and the 11 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 once were the chief source of revenue for the country, have declined in importance as a source of revenue to the point where they now provide less than 10 per cent of the total. Quite apart from its revenue aspects, however, the tariff still occupies an important place as an instrument of economic policy.

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

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

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

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

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

Provincial Taxes

All Canada's ten provinces impose a wide variety of taxes to raise the revenue necessary for provincial purposes. All provinces at present levy a tax on the income of individuals and corporations resident within their boundaries or deriving income from activities or operations carried out therein. Only Ontario and Quebec impose special taxes on corporations in addition to income tax and only British Columbia, Ontario and Quebec impose a tax on property passing at death. Under the terms of the existing federal-provincial fiscal arrangement, the Federal Government makes payments called "equalization payments" to some provinces in recognition of the fact that the potential tax

revenue from the fields of income tax, death duties and natural resource revenue in those provinces, measured on a per capita basis, is lower than the average per capita yield from these taxes in the two provinces where they produce the highest 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 income therein. In nine of the ten provinces, these taxes are computed as a percentage of federal "basic tax". As previously mentioned, "basic tax" is federal income tax (excluding old-age security tax) otherwise payable at full federal rates before the abatement under the federal-provincial arrangement and before allowance for any federal tax reduction. These provincial taxes are collected by the Federal Government on behalf of these provinces. In Quebec, provincial income tax is levied at graduated rates that progress from 5.2 per cent on the first $1,000 of taxable income to a maximum of 37.6 per cent on the excess over $400,000. The determination of taxable income for Quebec tax is based on exemptions and deductions similar to those for federal tax. Quebec collects its own tax.

The following table shows the percentage that provincial income tax liability is of federal "basic tax" for 1966:

Province	Percentage of federal "basic tax"
Newfoundland	24%
Prince Edward Island	24%
Nova Scotia	24%
New Brunswick	24%
Quebec	approximately 47%
Ontario	24%
Manitoba	29%
Saskatchewan	29%
Alberta	24%
British Columbia	24%

Corporate Income Tax

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

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

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

Alcoholic Beverages

Generally speaking, the sale of spirits in all provinces is made through provincial agencies operating as boards or commissions 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 contribute to provincial revenues.

Retail Sales Taxes

Eight provinces impose sales taxes on goods purchased by consumers or users. These taxes are collected by retail vendors acting as agents of the provinces. The provinces imposing sales tax and the rate of their levy are as follows:

Newfoundland	5%
Prince Edward Island	5%
Nova Scotia	5%
New Brunswick	3%*
Quebec	6%
Ontario	5%
Saskatchewan	4%
British Columbia	5%

* New Brunswick has stated its intention to raise its rate to 5 per cent, but the effective date of the change is still indefinite.

The provincial retail levies apply to tangible taxable commodities sold for consumption in the province and to a few selected services (local telephone service in all provinces; telecommunications in Ontario and Quebec; hotel and motel charges in Quebec). All provinces imposing sales taxes provide comprehensive exemptions for foodstuffs and drugs.

Amusement Taxes

Each of the provinces, with the exception of Alberta and Saskatchewan, has a tax on admission to places of entertainment. In addition, there is generally a 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.

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	19¢	19¢
Prince Edward Island	18¢	18¢
Nova Scotia	19¢	27¢
New Brunswick	18¢	23¢
Quebec	16¢	22¢
Ontario	16¢	22¢
Manitoba	17¢	20¢
Saskatchewan	15¢	18¢
Alberta	12¢	14¢
British Columbia	13¢	15¢

Motor Vehicle Licences and Fees

Each province also levies a fee on the annual registration of motor vehicles. This registration is compulsory, and each vehicle is issued with licence plates for the year. The rates of this licence fee vary from province to province. The amount to be paid may be assessed in relation to the weight of the car, the number of cylinders of the engine, or at a flat rate. The operator or the driver of a motor vehicle must also register annually and pay a fee for a new driver's licence; in Alberta and British Columbia, drivers' licences must be renewed every five years at a cost of $5; in Quebec, they must be renewed every two years also at a cost of $5; in Ontario, they must be renewed every three years at a cost of $6.

Taxes on Mining Operations

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

Tax on Logging Operations

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

Capital Taxes

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

Place-of-Business Taxes

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

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

Land-Transfer Taxes

Alberta, Manitoba and Ontario levy a tax based on the price at which ownership to land is transferred. In Ontario, a straight 1/5 of 1 per cent is imposed. 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 as 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. In Quebec a tax of 2.5 per cent of the purchase price is imposed only when property is transferred under the Bankruptcy or Winding-Up Act.

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

Tax on Security Transfers

Ontario and Quebec levy a tax on the sale price of securities transferred; the rates in each province are:

Share sold, transferred or assigned valued at:

Value		Rate
Under $ 1	-	1/10 of 1% of value
at 1 to 5	-	1/4¢ per share
" 5 to 25	-	1¢ " "
" 25 to 50	-	2¢ " "
" 50 to 75	-	3¢ " "
" 75 to 150	-	4¢ " "
Over 150	-	4¢ " " plus 1/10 of 1% of value in excess of $150

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

Premium Income of Insurance Companies

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

Succession Duties

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

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

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

Provincial Property Taxes

In unorganized (non-municipal) areas, British Columbia levies property taxes, at varying rates according to class, for provincial revenue. Improved forest and tree-farm lands are taxed at 1 per cent of assessed value; farm land at .5 of 1 per cent; wild land at 3 per cent; coal land at 2 per cent (non-operating) or 7% operating; and timber land at 1.5%. In unorganized (non-municipal) areas, Ontario levies a property tax of 1.5% of assessed value; the minimum annual tax in respect of any land in that province is $6. Nova Scotia and New Brunswick also have property taxes of limited application.

Municipal Taxation

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

In addition to the taxes described above, municipalities usually impose a charge for the water consumption of each property-holder or a water tax based upon 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 amusement. This practice differs from that of the other provinces, where the amusement tax is generally a provincial preserve. Electricity and gas are taxed at the consumer level in some Western municipalities, while coal and fuel oil for heating purposes are chargeable in urban areas of Newfoundland. Telephone subscribers are subject to a special levy in Montreal, while certain Ontario municipalities impose a tax on the gross receipts of telephone companies.

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

Miscellaneous Levies

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

Unemployment Insurance

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

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 $5,460 a year.

Workmen's Compensation

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

Hospital Insurance

A government-subsidized hospital insurance plan is in operation in each of the ten provinces. In all provinces but Quebec, the programme is a joint federal-provincial undertaking, where approximately half the cost of hospitalization for patients who are participants under the plan is met by the Federal Government and the other half by the province. In Quebec, the programme is entirely a provincial undertaking, where the share of cost normally carried by the Federal Government in the other provinces has been assumed by the province in exchange for fiscal compensation by way of a larger occupation of the field of personal income tax by that province. (See Introduction.) What can be regarded in all provinces as being the provincial share of the cost of the programme is financed by various means. Quebec has increased its personal and corporation income tax (i.e. quite apart from its greater occupation of the field of personal income tax in return for assuming the federal share of the cost of the programme). 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, self-employed people must also pay the premium directly if they wish to be covered by the plan. In some other provinces, the proceeds of a retail sales tax are earmarked in whole or in part for the support of the hospital plan.

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

RP/A