

2.—Combined Expenditure of All Governments, 1963 and 1964—concluded

Function	1963				1964			
	Federal	Pro- vincial	Munic- ipal	Total	Federal	Pro- vincial	Munic- ipal	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Inter-government Transfers—								
Federal-provincial fiscal arrangements ¹	217,329	—	—	217,329	312,473	—	—	312,473
Subsidies.....	31,525 ¹⁰	75,196	—	106,721	31,579 ¹⁰	160,720 ¹¹	—	192,299
Share of income tax on power utilities.....	9,868	—	—	9,868	9,679	—	—	9,679
Special payments.....	1,899	—	—	1,899	1,847	—	—	1,847
Grants in lieu of municipal taxes on federal and provincial property.....	31,920	4,030	—	35,950	36,447	4,085	—	40,532
Grand Totals, Net General Expenditure.....	7,552,912	3,750,365	2,553,356	13,856,633	7,916,464	4,357,114	2,739,295	15,012,873

¹ Federal payments to the provinces for the federal share under the Old Age Assistance Act. ² Payments of old age assistance pensions to individuals. ³ Old age security pensions to individuals. ⁴ All aid other than old age assistance pensions. ⁵ Consists largely of contributions to homes for the aged. ⁶ Includes \$59,122,000 for winter works projects; these projects were formerly included in other expenditure. ⁷ Includes \$18,838,000 for winter works projects; these projects were formerly included in other expenditure. ⁸ Includes \$26,824,000 for winter works projects. ⁹ Includes Atlantic Provinces adjustment grants of \$10,500,000 to Newfoundland, Nova Scotia and New Brunswick and \$3,500,000 to Prince Edward Island. ¹⁰ Includes statutory subsidies and additional grant of \$8,000,000 to Newfoundland. ¹¹ Includes \$83,204,000 paid by the Province of Quebec to its municipalities as compensation in lieu of the right to impose local sales taxes.

Table 3 gives details of combined debt of all governments for 1963 and 1964 with the aggregate debt of the federal, provincial and municipal governments; the inter-government debt is deducted to arrive at a consolidated government figure.

Section 2.—Taxation in Canada*

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 joined together 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, 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.

* Revised (December 1967) in the Tax Policy Division, Department of Finance, under the direction of F. R. Irwin, Director of the Division, and by the provincial authorities concerned.