

## 20.5 Local government finance

**Local government taxation.** In 1973, the latest year for which complete data are available, local government revenues from taxation rose by 1.7% to \$4,245 million, and the rate of collections stood at 99.99%. Taxes receivable expressed as a proportion of taxation revenue declined to 10.4% compared to 11.2% in 1972. Rates of collection declined slightly in 1973 compared with 1972 in Newfoundland, Nova Scotia, Quebec and the territories, but improved in the other provinces. Lower percentages of taxes receivable relative to taxation revenue were recorded in all provinces except Quebec and the territories.

**Local government revenue, expenditure and debt.** General revenue of local government in 1973 increased by 9.6% to \$10,500 million over 1972 while general expenditure at \$11,248 million also showed an increase of 9.6%. Debenture and other long-term debt amounted to \$10,476 million as at December 31, 1973 compared with \$9,884 million at December 31, 1972. Details are given in Tables 20.23 - 20.25.

## 20.6 Tax rates

Taxes are imposed in Canada by the three levels of government. 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. Municipalities derive their incorporation with its associated powers, fiscal and otherwise, provincially and are thus 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 concept 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.

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

Federal tax reform amendments which became effective for the most part from 1972, included a new personal income tax rate structure which was not designed to be abated in the previous way. At the same time the federal estate tax was terminated. As a result, the arrangement under which federal taxes are abated has general application only for the corporation income tax. All provinces impose taxes on the income of individuals and corporations and four of the 10 provinces impose taxes on property passing at death. Alberta, Saskatchewan, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland do not now impose succession duties. The federal government has tax collection agreements under which it collects provincial personal income taxes for all provinces except Quebec and provincial corporation income taxes for all provinces except Ontario and Quebec. The provinces which impose succession duties also collect them.

### 20.6.1 Federal taxes

**Individual income tax.** The federal government has adopted a tax system of self-assessment in which taxpayers volunteer the facts about their incomes and calculate the taxes they must pay. Every individual who is resident in Canada is liable for the payment of income tax on all his income. A non-resident is liable for