

materials purchased by public hospitals and certain welfare institutions are not subject to sales tax. The products of farms, forests, mines and fisheries are, to a large extent, exempt as is most equipment used in farming and fishing. Machinery and equipment used directly in production, materials consumed or expended in production and equipment acquired by manufacturers or producers to prevent or reduce pollution to water, soil or air from their manufacturing operations are all exempt. A number of items are exempt when purchased by municipalities. These and other exemptions are set forth in the schedules to the Excise Tax Act.

The Excise Tax Act also imposes a number of special excise taxes which 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. Those levied as at December 31, 1975 are given in Table 20.19.

**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.

The duties on spirits are on a proof gallon basis. They do not apply to denatured alcohol intended for use in the arts and industries, or for fuel, light or power, or any mechanical purpose. Canadian brandy (a spirit distilled exclusively from juices of native fruits without the addition of sweetening materials) is subject to an excise duty. Excise duties are imposed on tobacco, cigars and cigarettes in addition to the special excise taxes.

**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% 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 four sets of rates, namely, General Preferential, British Preferential, Most-Favoured-Nation and General. The General Preferential rates apply to goods imported from designated developing countries. The British Preferential rates are applied to imported commodities shipped directly to Canada from countries within the British Commonwealth. Rates lower than the British Preferential 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 or General Preferential Tariffs. Canada has Most-Favoured-Nation arrangements with almost every country outside the Commonwealth. The most important is the General Agreement on Tariffs and Trade.

The General Tariff applies to imports from countries not entitled to the British Preferential, General Preferential, or Most-Favoured-Nation treatment. Few countries are in this category and they are not significant in terms of trade coverage.

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. These drawbacks 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 articles used in the production of specified classes of goods manufactured for home consumption.

## Provincial taxes

All of Canada's provinces levy a wide variety of taxes, fees, licences and other forms of imposition. Among such levies, a relatively small number account for about 75% of total provincial revenue from own sources. Only the more