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.

A corporation may reduce its tax otherwise payable 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 two-thirds of any logging tax paid to a province not exceeding 6⅔% of its income from logging operations in the province. (At present only Quebec and British Columbia impose logging taxes.) Corporations are required to pay their tax by monthly instalments throughout their 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 half of capital gains less losses on disposals of taxable Canadian property. 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 the other country is taxed by Canada on its industrial and commercial profits only if it carries on business through a permanent establishment in this country.

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 are Canadian resident individuals.

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 after taxes that are not reinvested in the business in Canada.

Certain specific items of income paid to non-residents from sources in Canada are subject to a 25% tax withheld at source by the Canadian payer. This non-resident withholding tax applies to interest (except interest on certain government and long-term corporate bonds and interest paid to certain exempt lenders), dividends, rents, royalties (including royalties from motion pictures and television films), management fees, income from a trust or estate, alimony, pension benefits (other than the old age pension and the Canada Pension Plan or Quebec Pension Plan benefits), payments from deferred income plans and the taxable portion of annuities.

The 25% rate of non-resident withholding tax may be modified by tax treaties. The rate of tax applicable to dividends is reduced by 5% in the case of dividends paid by a corporation that has a degree of Canadian ownership. Generally, a corporation is regarded as having a degree of Canadian ownership where 25% of its equity and voting shares are owned by Canadians or corporations controlled in Canada, or where the voting shares of the corporation are listed on a Canadian stock exchange and no more than 75% of its issued outstanding voting shares are owned by a non-resident alone or in combination with related persons.

Non-residents who receive from sources in Canada only the kinds of income subject to the non-resident withholding tax do not file returns to 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 either personal or corporation rates.

Estate and gift taxes. The federal government formerly imposed an estate tax and a tax on gifts. They do not apply to deaths occurring after 1971 or gifts made after 1971.

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.