

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

## Provincial taxes

## 20.6.2

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 important levies are briefly described here. Complete details may be found in *Principal taxes in Canada*, Statistics Canada Catalogue 68-201E.

**Personal income tax.** All provincial governments levy a tax on the income of individuals who reside within their boundaries and on the income earned by non-residents from sources within those boundaries. Rates of provincial individual income tax are expressed as percentages of basic federal tax, with the exception of Quebec which has its own system. The basic federal tax on which provinces apply their rates is the federal tax after the dividend tax credit but before any foreign tax credit and special federal tax reductions. In accordance with the new 1977 fiscal arrangements, as outlined in Section 20.3.3, new provincial rates were introduced in 1977 to take full advantage of the larger portion of the income tax field made available to provincial governments. These new rates are as follows: Newfoundland 58%; Prince Edward Island 50%; Nova Scotia 52.5%; New Brunswick 55.5%; Ontario 44%; Manitoba 56%; Saskatchewan 58.5%; Alberta 38.5%; and British Columbia 46%. Newfoundland increased its rates from 56.5% on July 1, 1977. The effective rate for the 1977 taxation year was 57.25%. For personal income tax, the federal government acts as collection agent for all provinces except Quebec.

In Quebec, provincial income tax is not related to basic federal tax but is levied at graduated rates which take into account the federal tax abatement granted to Quebec taxpayers pursuant to the province's contracting out all shared-cost programs in 1964. Due to the reduction in basic federal tax entailed by the established shared-cost programs financing measures introduced in the 1977 final arrangements, the former abatement of 24% granted to Quebec taxpayers had to be recalculated. As a result, this abatement was set at 16.5% so as to correspond to the former 24%. The rates are progressive, varying from 16% on taxable income between \$2,000 and \$9,000 to a maximum of 28% on income exceeding \$60,000. The determination of taxable income is based on exemptions and deductions somewhat similar to those for the federal tax. Quebec does not participate in the federal tax collection agreements and therefore collects its own.

Ontario, Manitoba, Alberta and British Columbia have introduced tax credit schemes which are administered, at a small fee, through the federal tax collection machinery. Manitoba and Saskatchewan have introduced a surtax on provincial income tax payable in excess of a certain amount.

**Corporation income tax.** All provinces levy a tax on the taxable income of corporations. In provinces other than Quebec and Ontario, the provincial corporation income tax is imposed on the same basis as that established for federal corporation income tax purposes, and is collected by the federal government under tax collection agreements. In Quebec and Ontario, the determination of corporation taxable income follows closely, but not exactly, the federal rules and each collects its own levy. Corporate taxable income earned in a province is eligible for the 10% federal abatement to compensate corporations for provincial taxes payable. This 10% abatement does not apply to income earned in the Yukon Territory and Northwest Territories since they do not impose their own corporate income tax.

The rate that applies in Newfoundland is 14%; Nova Scotia 12%; Prince Edward Island 10%; Quebec 12%; and Alberta 11%. Five provinces introduced a preferential low tax rate for small business income. The dual corporate rates for these provinces are: New Brunswick 12%/9%; Ontario 12%/9%; Manitoba 15%/13%; Saskatchewan 14%/12%; and British Columbia 15%/12%.

**Business taxes.** Quebec, Ontario, Manitoba and British Columbia impose a tax on paid-up or utilized capital of corporations which have a permanent establishment within their