

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 of raising "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, from a practical standpoint, 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". In essence, 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, places of business and in some cases retail sales. 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.

The increasing use by both the federal and the provincial governments of their rights in the field of direct taxation in the 1930's resulted in uneconomic duplication and some severe tax levies. Starting in 1941, a series of tax agreements, each normally enduring for a period of five years, were concluded between the federal and the provincial governments to promote the orderly imposition of direct taxes. All provinces surrendered their claims to personal income tax for the duration of the wartime agreements which expired in 1947. The Provinces of Quebec and Ontario did not rent any tax fields under the 1947 agreements. The Province of Quebec did not rent any of its tax fields under the 1952 and 1957 agreements; the Province of Ontario did not rent succession duties under the 1952 agreements and did not rent either succession duties or corporation income tax under the 1957 agreements. Apart from these exceptions all provinces participated in the various tax agreements as fully as possible. Newfoundland rented its tax fields as soon as it entered Confederation.

Under these agreements, the participating provinces undertook, in return for compensation, not to use or permit their municipalities to use certain of the direct taxes. Under the last two agreements, the federal income tax and death tax otherwise payable in non-participating provinces were abated by a fixed percentage to make room for the provincial levies. The Wartime Tax Agreements of 1942 are outlined in the 1946 Year Book, pp. 900-901; the 1947 and 1952 Tax Rental Agreements in the 1954 Year Book, pp. 1087-1090; and the 1957 fiscal arrangements in the 1961 Year Book, pp. 1067-1069. The 1962 fiscal arrangements are authorized by the Federal-Provincial Fiscal Arrangements Act, assented to Sept. 29, 1961. They became operative on Apr. 1, 1962 and will run until Mar. 31, 1967.

Basically, the 1962-67 arrangements entail a partial federal withdrawal from the field of direct taxation and the re-entry of all provinces into the vacated area. The Federal Government reduces its personal income tax otherwise payable on income earned in a province, and on income received by a resident of a province, by the following percentages:

* Revised (July 1963) in the Taxation Division, Department of Finance, under the direction of F. R. Irwin, Director of the Division, and by the provincial authorities concerned.