

non-resident withholding tax on dividends referred to below, is designed to place non-resident corporations that carry on business through a branch in Canada in a comparable position to those non-residents that conduct their Canadian operations through a separate company incorporated in Canada.

Certain specific items of income paid to non-residents from sources in Canada are subject to tax withheld at the source by the Canadian payer. This non-resident withholding tax applies to interest (except interest on certain bonds and interest paid to certain exempt lenders), dividends, rents, royalties, management fees, income from a trust or estate, alimony, pension benefits (other than the old age security pension and up to \$1,290 of Canada Pension Plan or Quebec Pension Plan benefits), proceeds from deferred income plans and the taxable portion of annuities. The rate of this tax is generally 15% but the rate on royalties from motion picture and television films is only 10% and the standard rate of 15% on dividends is reduced to 10% 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 and/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.

The Income Tax Act provides that the rate of the above-mentioned non-resident withholding tax will become 25% in 1976, except for the rate on dividends paid by a corporation with a degree of Canadian ownership which will be 20%. These rates may be modified by tax treaties.

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 personal or corporation rates as the case may be.

Estate and gift taxes. The federal government formerly imposed an estate tax and a tax on gifts. These taxes do not apply in the case of a death occurring after 1971 or to a gift 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.

The general sales tax is at the rate of 12%. It is levied on the manufacturer's sale price of goods produced or manufactured in Canada or on the duty-paid value of goods imported into Canada. "Duty-paid value" includes the amount of customs duties, if any. For alcoholic beverages and tobacco products the sale price for purposes of the sales tax includes excise duties levied under the Excise Act. The rate of sales tax on a long list of building materials is 11% instead of 12%.

Some goods are exempt from sales tax. Drugs, electricity, fuels for lighting or heating, children's clothing and footwear and most foodstuffs are exempt, and also articles and materials purchased by public hospitals and certain welfare institutions. The products of farms, forests, mines and fisheries are, to a large extent, exempt as well as most equipment used in farming and fishing. Machinery and equipment used directly in production and materials consumed or expended in production are also exempt, and also equipment acquired by manufacturers or producers to prevent or reduce pollution to water, soil or air from their manufacturing operations. 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. The special excise taxes levied at present are given in Table 20.25.

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