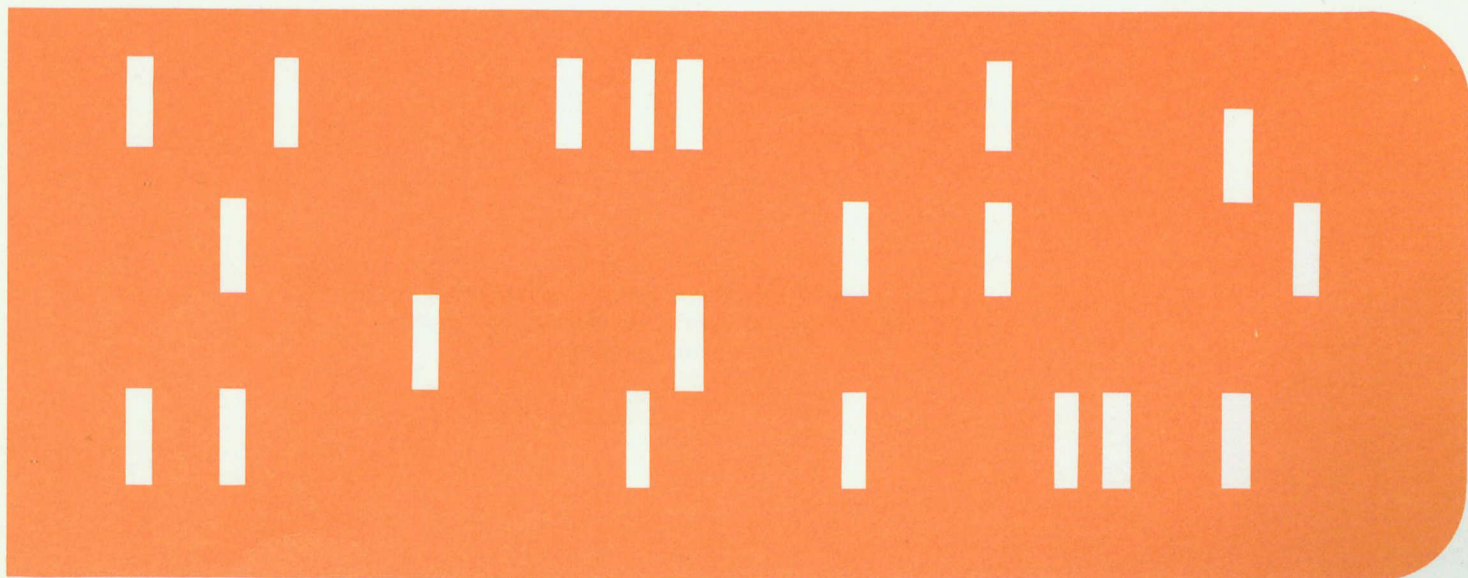


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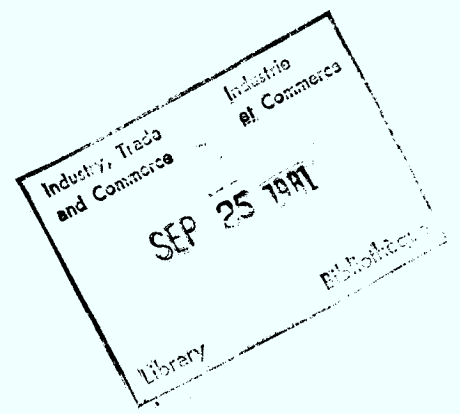
1969 Pt.3

DOING BUSINESS IN CANADA

TAXATION
SALES, EXCISE, COMMODITY



DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE
OTTAWA, CANADA



DOING BUSINESS IN CANADA

TAXATION SALES, EXCISE, COMMODITY

Prepared by
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Ottawa, Canada

FOREWORD

The information in this booklet deals with the incidence of sales, excise and commodity taxes. It is intended as a guide in this field of taxation and, as such, refers only to the basic principles involved.

Every effort has been made to accurately reflect the legislation in force at the time of preparing the material. However, since the law contains a considerable amount of detail, it is suggested that an enquirer consult with relevant authorities or solicitors of his choice, or both, when seeking precise and detailed advice on a given problem.

While the Department of Industry, Trade and Commerce is prepared to assist manufacturers requiring guidance on these matters, specific information can be obtained from any one of the district sales tax offices of the Department of National Revenue located throughout the country. Head office of the Department of National Revenue is in Ottawa.

Other publications available from the series "Doing Business in Canada" are:

- The Canadian Environment
- Forms of Business Organization
- Canadian Customs Duties
- Taxation — Income, Business, Property
- Labour Legislation
- Construction and Equipment Standards
- Federal Incentives to Industry
- Patents, Copyrights and Trade Marks
- Tariff Preferences for Canadian Goods Abroad

Also available:

- Financing Canadian Industries

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FEDERAL SALES TAX

A consumption or sales tax is imposed by the federal government, with certain exceptions, on the sale price of goods manufactured or produced in Canada, payable by the manufacturer or producer when the goods are delivered to the purchaser. Effective January 1, 1967, the full rate of tax is 12⁰/. Imported goods, with certain exceptions, are also subject to the sales tax, payable on the Customs duty-paid value at the time of entry for consumption in Canada.

Items exempted from sales tax include practically all foodstuffs, materials consumed or expended in a manufacturing process, machinery and apparatus used directly in the manufacture or production of goods, and implements used in agriculture and in the primary industry of fishing. Materials used in the construction of schools, universities and similar educational institutions and public libraries are also exempt, but the exemption is in the form of a refund equal to the amount of tax paid.

Most building materials are subject to a rate of 11⁰/ but some items such as water pipes, nails and electrical wiring are taxed at 12⁰/.

Manufacturers or producers (including remanufacturers and rebuilders) of goods subject to federal sales tax are required to obtain a manufacturer's sales tax license. Licensed manufacturers are permitted to purchase or import articles and materials for further manufacture free of sales tax, provided they quote

their license number and certify that the articles or materials are to be used in, wrought into, or attached to, taxable goods for sale.

There are two points that might be noted, however, of particular interest to the foreign manufacturer who proposes to establish a manufacturing operation in Canada and, in so doing arranges for an exclusive distributorship or takes his distributor into partnership with him.

Firstly, if the manufacturing firm and the distributor are inter-related, associated or affiliated concerns, or if one is subsidiary to the other, it is possible that the selling price of goods to the distributor will not be accepted as a "fair price" for sales tax purposes; in such situations the taxable value will be the value at which the goods are resold to independent purchasers (subject to tax equalization adjustments that are widely allowed by the administration). Secondly, if the distributor owns the patent, or supplies the moulds, or has the products made to his own specifications or to the specifications of the foreign parent, or has exclusive sales rights to the goods, then it is possible that the distributor will be regarded for sales tax purposes, as the manufacturer of the goods.

Clearly, these tax factors have a direct influence on prices, and firms making arrangements in this area would be well advised to discuss the tax ramifications with the Regional Excise Tax Administration of the Department of National Revenue.

FEDERAL EXCISE TAXES

Excise tax, in addition to the sales tax, is imposed on certain specified goods, whether manufactured or produced in Canada or imported into Canada. The list of excisable items includes cosmetics, jewellery, radios and television sets, matches, cigarettes, tobacco, etc. Complete details can be found in the Excise Tax Act, a copy of which may be purchased from the Queen's Printer, Ottawa.

The federal Department of National Revenue requires that all persons or firms manufacturing or producing goods subject to an excise tax must operate under a manufacturer's excise tax license. The license is obtainable from the District Director, Excise Tax Collections, in the area in which the company

or individual proposes to operate.

Manufacturers licensed for excise tax purposes may purchase or import free from excise tax, excisable goods that are to be incorporated into and form a constituent or component part of an article or product that is subject to an excise tax, provided they quote their excise tax license number and relevant certificate. The procedure for filing returns and paying excise tax is similar to that for sales tax.

As sales and excise taxes are remitted by licensed manufacturers or licensed wholesalers, retailers are not concerned with filing sales and/or excise tax returns nor with remitting taxes to the Department of National

Revenue, unless they become liable as manufacturers or producers of taxable goods. However, licensed manufacturers or wholesalers will likely add the amount of sales or excise tax they have had to pay to the price of the goods they sell to retailers and other unlicensed purchasers. Unlicensed importers pay sales and excise taxes at the time goods are cleared through Customs, unless the goods are imported in bond in which case the taxes are paid at the time goods are taken out of bond for consumption.

When goods on which duties and/or taxes have been paid are used or directly consumed in, wrought into, or attached to any

article manufactured or produced in Canada and then exported, a drawback of 99% of the duties and/or taxes paid may be allowed. When goods of domestic manufacture are exported from Canada on direct shipment by the manufacturer or producer, the excise and sales taxes which might have otherwise been payable are not imposed.

Where any doubt exists concerning status under the Excise Tax Act, inquiries should be addressed to —

Deputy Minister,
Department of National Revenue,
Customs and Excise,
Ottawa, Canada.

PROVINCIAL SALES TAX

Nine provinces levy a direct sales tax on goods sold, used or consumed within the provinces as follows:

New Brunswick and Quebec	8%
Newfoundland, Nova Scotia, and Prince Edward Island	7%
Ontario, Manitoba, Saskatchewan, and British Columbia	5%

All nine provincial levies are retail sales taxes imposed in respect of the consumption of goods. Retail sales are defined as sales to consumers or users for purposes of consumption or use, not for resale. Each of the provinces requires vendors to obtain licenses or registration certificates.

The word "vendor" includes all retailers as well as manufacturers and wholesalers making retail sales. In practice, these latter firms are required to register, even though they are not selling at retail, in order to purchase without tax those materials that they buy for resale. Having registered, they are then in a position to quote license or certificate numbers to claim exemption.

Retailers are required to keep adequate records to show taxable and non-taxable sales, purchases, goods taken from stock for personal use, and tax collected.

The major groups exempted from provincial sales taxes are as follows: (1) food — although the definition of food in each province varies slightly, (2) farm implements, machinery and related items; farm livestock, feed, seed and fertilizer, (3) fuels — the degree of exemption varies from province to province, (4) goods purchased for purposes of further processing, fabrication or manufacture prior to sale, and (5) industrial machinery — only in certain provinces when the machinery is used directly in manufacturing or processing goods for sale.

The foregoing is only an outline of the major exemptions to provincial sales taxes and, in view of the numerous exceptions and qualifications involved, details on this subject should be obtained from the provincial authorities.

Licensed vendors are permitted to deduct a small percentage from the amount due to the taxing authority to cover their administrative costs in collecting the tax.

ALCOHOLIC BEVERAGES AND PRODUCTS

Alcohol, alcoholic beverages, and alcoholic products are, with minor exceptions, subject to excise duty under the Federal Excise Act. Manufacturing members of the trade must hold a license. Copies of the Excise Act may be purchased from the Queen's Printer, Ottawa, Canada.

Applications for licenses under the Federal Excise Act are filed with the Regional Director of Excise Duty. These Regional Directors are located at Montreal (having jurisdiction over Quebec and the Maritime Provinces), Toronto (having jurisdiction over Ontario) and Vancouver (having jurisdiction from

Thunder Bay to British Columbia inclusive). It is important to note that applicants must be financially able to fulfill the obligations they incur as licensees. In all cases a bond must be filed with the Department of National Revenue in such sums as may be designated in addition to the payment of the requisite license fee.

Under the Federal Excise Act the annual license fee for the production and/or bottling of distilled spirits, including the manufacture of industrial and denatured alcohol is \$250; for the production of beer, ale, etc., \$50. With regard to chemical stills, there is an annual fee of \$2 for the importation, manufacture, possession and use of units exceeding three gallons; bona fide public hospitals are exempted. Chemical stills not exceeding three gallons capacity are required to be registered with the District Surveyor of Excise Duty; no fee is charged. District Surveyors are located at Saint John, Quebec City, Montreal, Toronto, Kitchener, Calgary and Vancouver.

Persons using spirits at a reduced rate of federal excise duty in the manufacture of pharmaceutical preparations and flavouring extracts, vinegar, perfume and toilet products, domestic wine when fortified with wine spirits, toilet preparations or cosmetics, subject to Excise Tax, and certain chemical products, are required to pay an annual fee of \$50 for each license they obtain.

Liquor Control Acts have been enacted in all provinces. There is considerable variation in detail but the salient feature of all is the establishment of a provincial monopoly on the retail sale of alcoholic beverages. All sales are taxed heavily.

Each province has established a Board or Commission responsible for the administration of its liquor Control Act. Each Act requires that all brewers and distillers producing and selling within the province must obtain a provincial license.

All retail outlets must be provincially licensed. There is considerable variation between provinces in the regulations with regard

to the type of outlet through which alcoholic beverages may be sold at retail as well as in connection with the equipment, accommodation, etc., of businesses which can apply for a license.

Alcoholic beverages are sold through government liquor stores in all provinces and licenses may now be obtained by such other outlets as cocktail lounges, restaurants, canteens, clubs and hotels. In Manitoba, Ontario and Newfoundland beer may be sold through brewers' retail stores, in Quebec, through grocery stores and in Saskatchewan through licensed beer parlours and beverage rooms for off-premise consumption. In Newfoundland, beer may also be retailed by agents licensed by the Board of Liquor Control. In certain smaller centres in Saskatchewan responsible persons may be appointed to act as special liquor vendors. Ontario permits local wine producers to sell at retail under certain restrictions.

It should be noted that restaurants and hotels, in their provision of food and drink, are also required to be licensed under regulations concerned with public health. All provinces have a licensing requirement and supervision is maintained through a system of inspection. The definition of a hotel is usually considered to include any building used mainly for the purpose of catering to the sleeping needs of the public, including tourist cabins, overnight cabins and motels. In the province of Quebec, control extends to boarding houses as well. In other provinces such premises are normally regulated by municipal authorities.

Provincial licensing requirements extend also to manufacturers of vinegar, perfumes, pharmaceuticals, patent or proprietary medicines and essences. Such manufacturers must have special permission to have and use distilled spirits in their production operations. These licenses or permissions are over and above the licenses required by the federal Department of National Revenue.

TOBACCO AND TOBACCO PRODUCTS

Tobacco and tobacco products are subject to excise duty under the federal Excise Act. Copy of the Excise Act may be purchased from the Queen's Printer, Ottawa, Canada.

Manufacturers of cigars and/or tobacco products (including cigarettes and snuff) must

obtain an annual license under the federal Excise Act from the Regional Director of Excise Duty in whose district their business is carried on. The fee is \$50 for permission to operate either as a cigar manufacturer or as a tobacco products manufacturer. Bond must be

filed with the Department of National Revenue in each case. Persons dealing in preparing, packing or stemming Canadian raw leaf tobacco, or employing others to do so on their behalf, must also be licensed and file bond. The fee is \$50 annually.

Newfoundland, Prince Edward Island, New Brunswick, Quebec, Ontario, Manitoba and Saskatchewan levy taxes on specified tobacco products; Nova Scotia levies a tax on all tobacco products in any form. Vendors are required to be licensed or registered in order that returns and remittances may be properly controlled.

All of the larger municipalities require

vendors to hold a license before selling tobacco products at retail. There is usually a differential in the fee dependent on whether the vendor is concerned solely with tobacco or with various types of manufactured tobacco products.

Some of the provinces have prohibited the use of vending machines for the sale of cigarettes since the merchant is not in a position to check the age of the purchaser (nearly all provinces have specified a minimum age). In other instances, cigarette vending machines can be used only where a license has been obtained from municipal authorities.

BONDED MANUFACTURERS AND BONDED WAREHOUSES

Applications for a license to manufacture in bond under the Excise Act must be made to the Regional Director of Excise Duty in whose region business is to be carried on. The license fee is \$50. In addition, a guarantee bond must be furnished to the Department of National Revenue in such sums as may be designated.

A manufacturer in bond is one who, under authority of the Excise Act, may receive into his premises alcohol and other excisable goods at preferred rates of duty when for use in the manufacture of products such as proprietary medicines, pharmaceutical preparations, essences and extracts, perfumes, vinegar, approved chemical compositions, toilet preparations or cosmetics subject to excise tax. The products are manufactured under govern-

ment supervision.

An excise bonding warehouse is any approved premises where goods subject to excise may be stored in bond. Goods may be transferred in bond from one bonding warehouse to another or exported in bond without payment of duty. In case of transferral or export, the shipper is liable for any accrued duty until the obligation of the bond is cancelled by the delivery of the goods.

Except in the case of spirits and alcohol, the sale of which is further controlled by provincial liquor boards or commissions, excisable goods are shipped without restriction when duty has been paid. Potable spirit, even when duty has been paid, is shipped only to provincial liquor boards or commissions.

AMUSEMENT OR ENTERTAINMENT TAX

Each of the provinces with the exception of Alberta, Saskatchewan, British Columbia and Quebec has a tax on admission to places of entertainment. In addition, there is generally

a license fee imposed on the operator or owner of these amusement places. The tax on admissions is within the range of 5 per cent to 15 per cent.

GASOLINE TAXES

All provinces levy a tax, or taxes, on gasoline, diesel or other motive fuels. The level of tax ranges from 13¢ per gallon of gasoline in British Columbia to 27¢ per gallon of diesel fuel in Nova Scotia. In levying these taxes special consideration is extended in the form of tax exemption or refund of tax when gasoline is used in certain "off-highway" or stationary industrial applications.

In order to protect their revenues from

these taxes, all provinces require that parties handling gasoline be licensed. Licenses are required by importers, refiners, distributors, jobbers, wholesalers, retailers and agents, in order to offer for sale and to sell gasoline, kerosene or distillate.

As a further measure of control, most provinces require that a permit be obtained to place, erect, or alter any gasoline pump in whole or in part.

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