

# FISCAL FEDERALISM

## THE QUEBEC-CANADA EXPERIENCES

Conference presented to  
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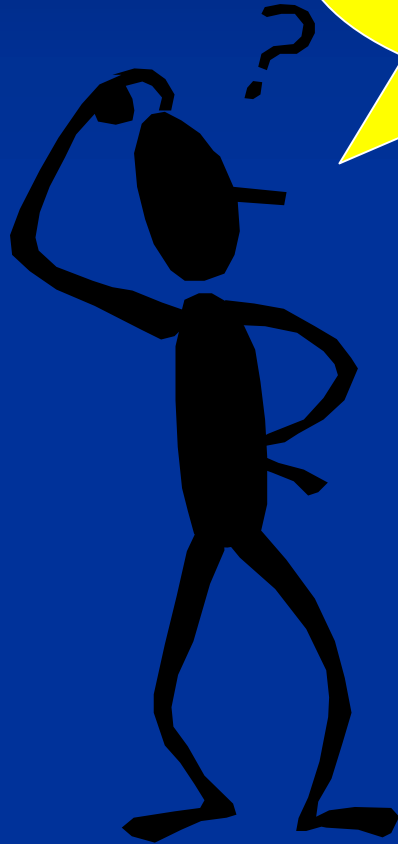


BY  
Daniel Bourgeois  
BAA, M. Fisc, LLB  
President and Chief executive Officer  
Fiscal and Financial Planning Association

[www.apff.org](http://www.apff.org)

# SUMMARY

1. What is APFF ?
2. An overview of Canada's Constitution (separation of powers between the federal government and provinces).
3. Canadian taxation (federal, provincial (Quebec) and local taxation).
4. Selected and practical topics concerning the Canadian/Quebec experience.



What is the APFF ?



# Organisation

- Non profit
- Independent
- Non governmental
- Autonomous and self financed

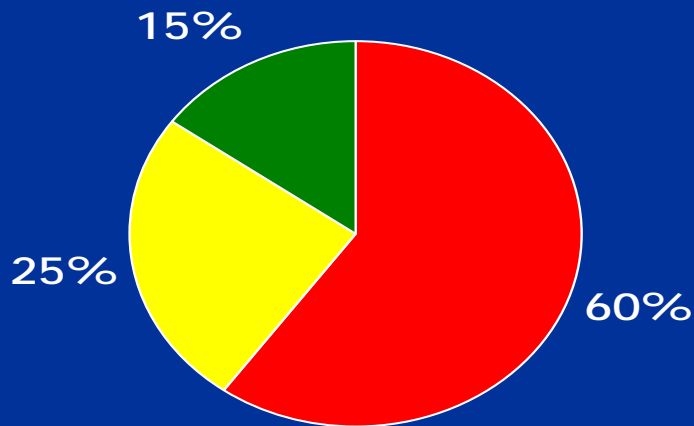
# OBJECTS

- Improving its members competence by enhancing their know-how in the field of taxation and financial planning.

- To regroup professionals from different backgrounds
- Different areas of professionals activities

# Statistics

## MEMBERS 2003





# Our member's needs:

- To update their knowledge
  - Evolution of tax laws
  - Jurisprudence
  - Doctrine
  - To meet with government officials (finance and revenue departments) in order to discuss different topics concerning tax policies and tax administration.





# ACTIVITIES AND PUBLICATIONS

- In 2003, we have organised 140 activities (annual tax conference, seminars, lectures, discussion lunches, round tables).
- We have published more than 12 000 pages on different tax topics (contents of seminars, lectures, quarterly revues, magazines, specialized publications, news letters, etc.)

# INTERNATIONAL RELATIONS

- APFF is called upon to act as a resource organization by economic and social development assistance organizations, such as CIDA (Canadian International development Agency) in order to provide assistance to other countries.

That's what is APFF !



# FISCAL FEDERALISM IN CANADA

- Canada is divided in 10 provinces and 3 territories.
- Federal regime means that powers and responsibilities are divided between the federal government and the provinces.

# JURISDICTIONS – DIVISION OF POWERS

- FEDERAL GOVERNMENT

- defence, banking system, postal service, criminal law, immigration, international relations.

- PROVINCIAL GOVERNMENT

- justice and civil law, property, education, health, environment, cities and municipalities (local government).

- SHARED RESPONSIBILITIES

- agriculture, transportation, welfare.

# TAXATION POWERS

- “CONSTITUTIONAL ACT OF 1867”  
Power of taxation is divided between the federal government and the provinces – concurrent jurisdiction.
  
- FEDERAL
  - excise tax and custom duties
  - power to levy all kind of taxes (income tax, direct or indirect taxes), but not on land and property owned by the provinces.
  
- PROVINCIAL
  - Power to levy income taxes and direct taxes within the limits of their jurisdictions; power to tax (licenses and permits) and power to tax natural resources (renewable or non renewable).

# TAX SYSTEMS

- INDIVIDUAL INCOME TAX

- Individuals resident in Canada are taxed on their worldwide income from all sources;
- Both the federal government and the provinces levy income tax;
- Federal collects I .T. for all provinces, except Quebec (pros and cons);
- Top marginal rates (combined federal and provincial) fluctuate from one province to the other.

# FEDERAL INCOME TAX RATES (1) (INDIVIDUAL)

## TAXABLE REVENUES

## RATES

0 – 32 182. \$

13,4 %

32 183. \$ - 64 367. \$

18,4 %

64 368. \$ - 104 647. \$

21,7 %

104 648. \$ +

24,2 %

(1) Applicable to Quebec resident





# QUEBEC INCOME TAX RATES (INDIVIDUAL)

## TAXABLE REVENUES

## RATES

0 – 27 094 \$

16,0 %

27 095. \$ - 54 194. \$

20,0 %

54 195. \$ +

24,0 %

## COMBINED FEDERAL – QUEBEC INDIVIDUAL INCOME TAX – EFFECTIVE RATES / MARGINAL RATES

Taxable revenues	Income tax		Total	Effective rate	Marginal rate
	Federal (1)	Quebec (2)			
25 000. \$	2 304. \$	2 196. \$	4 500. \$	18,00 %	29,36 %
50 000. \$	6 536. \$	7 112. \$	13 648. \$	27,30 %	38,37 %
75 000. \$	11 484. \$	12 944. \$	24 428. \$	32,57 %	45,71 %
150 000. \$	28 902. \$	30 944. \$	59 846. \$	39,90 %	48,22 %

(1) INCLUDES FEDERAL PERSONAL TAX CREDIT OF 1037.\$

(2) INCLUDES PROVINCIAL PERSONAL TAX CREDIT OF 1804.\$

# NON - RESIDENT

Non-resident individuals are taxed on their Canadian source revenues (employment, enterprises, dividends, interest, capital gains, rents).

# CORPORATE INCOME TAX

- Corporations that reside in Canada are liable to pay income tax at different rates, depending of the types of revenues;
- They are also subject to paid up capital tax.
- Both the federal government and the Quebec government levy the above taxes.

# SALES TAX

- A federal GST (Goods & Service Tax) of 7% is applicable to all goods and services sold in Canada; (similar to a V.A.T.);
- QST (Quebec Sales Tax) of 7,5% is applicable to all goods and services sold in Quebec (similar to a V.A.T.);
- Total sales tax in the province of Quebec: 15.04%
- Export of goods and services are not subject to GST and QST).

# AGREEMENT BETWEEN THE FEDERAL GOVERNMENT AND THE QUEBEC GOVERNMENT CONCERNING THE GST

- The department of revenue Quebec assess and collects, for the federal government, the GST (a federal tax) on goods and services sold within the province of Quebec;
- A good example of fiscal cooperation;
- This agreement is exclusive to Quebec, no other province having a provincial Revenue Department.

# LOCAL TAXATION

- Constitution Act of 1867: cities are under the jurisdiction of the provinces;
- Cities are created by law adopted by the Quebec National Assembly and the provincial legislatures;
- Federal government cannot intervene directly with taxing measures;
- Local revenues consist mainly in real estate taxes collected by cities (based on evaluation);

## LOCAL TAXATION (CONTINUED)

- The legal “backbone” which enables local taxation: land registry and evaluation;
- Quebec territory is itemized electronically in a cadastral plan;
- Each immovable property is registered and a number is assigned to each property;
- Registration information (boundaries, measurements, areas, name of owner, indication of the mode of acquisition);



# LOCAL TAXATION (CONTINUED)

- **Municipal responsibilities** (within the city limits): roads, police, water, fire department, garbage collection, snow removal, local sport and cultural infrastructure, etc.

# LOCAL TAXATION (CONTINUED)

- Sources of revenues
  - Real estate taxes (based on property valuation) ;
  - Transfer duties (on immoveable)  
example:

0 – 50 000	0.5% tax
50 000 – 250 000	1% tax
250 000 +	1.5% tax
  - Other specific taxation

# SELECTED AND PRACTICAL TOPICS ON FISCAL FEDERALISM

- BENEFITS OF COOPERATION (Canada/Quebec):
- Audit and assessments procedures;
- Exchange of information between RCA and RQ;
- Formal agreement between RCA and RQ concerning the GST;
- Meetings between RCA and RQ;



# FISCAL FEDERALISM IN CANADA

## PROBLEM:

- Fiscal imbalance between the federal government and the provinces.

## FISCAL IMBALANCE (CONTINUED)

- This has been a major issue (contentious) of the Canadian Federation.
  
- Nature of the problem:
  1. Major cuts by the federal government under the Canada Health and Social Transfer (CHST);
  2. Demographics imposes huge pressure on social spending (provincial jurisdiction) (sharp rise in recent years).

## FISCAL IMBALANCE (CONTINUED)

- The Quebec government formed, in 2001, a Commission to study this problem and its actual consequences and also to find practical solutions that could be implemented to correct it.
- [www.desequilibrefiscal.gouv.gc.ca](http://www.desequilibrefiscal.gouv.gc.ca)

# FISCAL IMBALANCE (CONTINUED)

- The fiscal imbalance between the federal government and the provinces stems essentially from three separate causes:
  - the categories of expenditures and revenues by the two (2) levels of government;
  - inadequate intergovernmental transfers;
  - the “federal spending power” in areas of provincial jurisdictions;

## FISCAL IMBALANCE (CONTINUED)

- Recommendations proposed by the Quebec Commission:
  - to restore fiscal balance within the Federation (by changing the terms and conditions of existing transfer programs);
  - to counteract “federal spending power” in areas of provincial jurisdiction;
  - to create a genuine process of exchanges and discussion between the 2 levels of government, on all aspects of intergovernmental fiscal relations;





# COUNCIL OF THE FEDERATION

[www.councilofthefederation.ca](http://www.councilofthefederation.ca)

- A new institution created on Dec 5th, 2003 by the Provincial Prime Ministers.
- Purpose:  
improving federal-provincial relations