

Key terms

Consumption and commodity taxes

Examples are sales tax, fuel and gas tax, tobacco tax, GST/HST, health tax, gaming tax, liquor mark-ups and hotel room tax.

Deductions

Amounts an individual can subtract from his or her total income to determine taxable income (see taxable income).

Goods and services tax (GST)

A 5% tax that applies to the supply of most goods and services in Canada. Although the consumer pays the tax, businesses are generally responsible for collecting and remitting it to the government.

Income

All salaries, wages (including tips) and other remuneration earned from employment, from operating a business or from owning property. Other types of income include interest, dividends, royalties, gains on the sale of property, rent on property and the net profit of operating a business.

Income tax

A compulsory contribution levied on persons, property, or businesses for the support of government for economic and social operations. In other words, it is money paid to a government to fund its programs and services.

Infrastructure

Infrastructure is the essential or foundational elements of a system or structure. Roads, sewers, water and power are the infrastructure of a city.

Non-compliance

Failure to obey or comply with tax laws.

Refund

An overpayment of tax that is returned to you, or a rebate of tax that you can apply to receive.

Self-assessment tax system

The federal and provincial tax systems in Canada are based on the "self-assessment" system whereby individuals and businesses assess tax owed by completing a tax return and submitting it to the federal and/or the provincial government. It is important to keep in mind that all tax returns may be subject to review and audit.

Tax evasion

Tax evasion typically involves deliberately ignoring a specific part of the law. For example, those participating in tax evasion may under-report taxable receipts or claim expenses that are non-deductible or overstated. They might also attempt to evade taxes by wilfully refusing to comply with legislated reporting requirements. Tax evasion, unlike tax avoidance, has criminal consequences.

Tax return

A form that taxpayers use to file an income tax and benefit return. It provides personal information, reports income, subtracts deductions and claims allowable credits in order to determine the amount of tax they must pay for a taxation year. The result of the calculations will show either an underpayment of tax, resulting in a balance owing, or an overpayment of tax resulting in a refund.

Taxable income

The total income an individual receives during the tax year minus deductions. One example of a permitted deduction is the amount paid for union dues.

Transfer payments

The federal government collects tax to pay for federally sponsored programs. The federal government also transfers money, known as transfer payments, to the provinces to pay for programs that they administer. The provinces in turn, make further transfer payments to municipalities.

Underground economy

People or businesses that operate in a manner contrary to tax laws to reap benefits from not reporting and paying their required share of the taxes and other dues that they rightfully owe. Their actions negatively impact the government's ability to deliver services to the public. Typical taxes impacted would include income tax, excise tax, GST/HST, retail sales tax, tobacco tax and fuel tax to name a few.

Voluntary compliance

Refers to taxpayers filing required tax returns and payments on time without the need for enforcement or collection activity.