term "residence" is difficult to define simply but, generally speaking, it is taken to be the place where a person resides or where he maintains a dwelling ready at all times for his use. There are also extensions of the meaning of Canadian resident to include a person who has sojourned in Canada for an aggregate period of 183 days in a taxation year, or a person who was during the year a member of the Armed Forces of Canada, or an ambassador, a high commissioner, or an officer or servant of Canada or of any one of its provinces.

The Canadian tax law uses the concepts "income" and "taxable income". The income of a resident of Canada for a taxation year comprises his revenues from all sources inside or outside Canada and includes income for the year from all businesses, property, offices and employments. It does not include capital gains unless they arise out of the conduct of a business or as a result of an adventure in the nature of trade.

In computing his income for a taxation year, an individual must include all dividends, fees, annuities, pension benefits, allowances, interest, alimony, maintenance payments and other miscellaneous sources of income. On the other hand, war service disability pensions paid by Canada or an ally of Her Majesty at the time of the war service, unemployment insurance benefits, compensation in respect of an injury or death paid under a Workmen's Compensation Act of a province and family allowances do not have to be included in the computation of income.

In computing his income, an individual who is carrying on business may deduct business expenses including depreciation (called capital cost allowances), interest on borrowed money, reserves for doubtful debts, contributions to employees' pension plans, bad debts, and expenses incurred for scientific research. In general, no deductions are allowed in computing income from salary and wages although there are exceptions—travelling expenses (of the employee who must travel in the performance of his work), union dues, alimony payments and contributions to registered pension plans. An individual may deduct, within limits, amounts set aside to provide future income under a registered retirement savings plan. A student in full-time attendance at a university or other post-secondary school may deduct his tuition fees.

Having computed his income, the individual then calculates his taxable income by deducting certain exemptions and deductions: for single status an exemption of $1,000; for married status an exemption of $2,000; for dependent children eligible for family allowance, $250; for other dependants (as defined in the law), $500; for a taxpayer over 65 years of age, an additional $500; and charitable donations up to 10 p.c. of income. Medical expenses that exceed 3 p.c. of income may be deducted up to a maximum of $2,500 for a single person, $3,000 for a married person, and $750 for each dependant, or a total of $3,000 for all dependants. In lieu of claiming deductions for charitable donations, medical expenses and membership dues in trade unions or professional societies, an individual may claim a standard deduction of $100.

As already stated, an individual who is resident in Canada for the whole year is taxed on his income from both inside and outside Canada. A non-resident who carries on business in Canada or who earns salary or wages in Canada is taxed on income earned in Canada. Such a non-resident may deduct that part of the exemptions and deductions which may reasonably be attributed to the income earned in Canada.* An individual who is resident in Canada for part of the year is subject to income tax in Canada on that part of his income received while he is resident in Canada; he also is permitted that part of the exemptions and deductions which may reasonably be considered as applicable to his period of residence in Canada.

A progressive schedule of rates is applied to taxable income, beginning at 11 p.c. on the first $1,000 of taxable income and increasing to 80 p.c. on taxable income in excess of $400,000. In addition, an old age security tax is levied on taxable income at the rate of 3 p.c. with a maximum of $90 reached at the level of $3,000.

* A non-resident who derives investment income from Canada is taxed in a different way, described on p. 1042.