16 p.c. in 1962; 17 p.c. in 1963; 18 p.c. in 1964; 19 p.c. in 1965; and 20 p.c. in 1966. Also, the Federal Government reduces its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 p.c. of taxable income earned in any province except Quebec and 10 p.c. of taxable income earned in Quebec. The additional 1 p.c. reduction in respect of taxable income earned in Quebec is to compensate for the additional tax levied by the province on corporation income to provide grants to universities. These provincial grants replace federal grants which in other provinces are paid to the universities by the Federal Government through the Canadian Universities Foundation. Finally, the Federal Government abates the federal estate tax otherwise payable by 50 p.c. in respect of property situated in a province which levies its own death tax. Only Ontario, Quebec and British Columbia at present levy death taxes in the form of succession duties.

These reductions in federal income tax and estate tax under the terms of the 1962-67 arrangements do not apply to the Yukon Territory or the Northwest Territories or to income earned outside Canada. The Yukon and Northwest Territories do not impose income taxes or death taxes.

The provincial tax rates are not restricted to the extent of the federal withdrawal. Their constitutional position permits them unlimited use of direct taxes for the raising of revenue for provincial purposes. However, in all but four provinces (Ontario, Quebec, Manitoba and Saskatchewan) rates of income tax coincide with the amount of the federal abatement.

As part of the 1962-67 arrangements, the Federal Government has entered into tax collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except Ontario and Quebec.

Under the terms of 1962-67 arrangements, adjustment grants are made to the Atlantic Provinces in recognition of their special circumstances. These grants amount to $35,000,000 per annum and are distributed as follows: $10,500,000 to each of the Provinces of Newfoundland, Nova Scotia and New Brunswick, and $3,500,000 to the Province of Prince Edward Island. Newfoundland gets an additional $8,000,000 annually under the terms of the Newfoundland Additional Grants Act of 1959.

Subsection 1.—Federal Taxes

Individual Income Tax

Every individual who is a resident of Canada at any time during a year is liable for the payment of income tax for that year. In addition, every non-resident individual who is employed or carries on business in Canada during a year is required to pay tax on his income from Canadian sources. Canadian taxation practice is based to a large extent on the British experience. This is reflected particularly in the fact that taxation is on the basis of residence rather than citizenship, and in the tax freedom for capital gains. The 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, or the spouse or dependent child of any such person.

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.