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 pension plans or deferred profit-sharing plans for his employees, 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. These exceptions include travelling expenses of employees who have to travel as they perform their work (such as employees on trains), union dues, alimony payments, and contributions to registered pension plans. Individuals may deduct, within limits, amounts set aside to provide a future income under registered retirement savings plans. Students in full-time attendance at a university or other educational institution in a course at a post-secondary school level may deduct their tuition fees in computing their income.

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 to receive family allowance $300 per child; for other dependants (as defined in the law), $550 per dependant; for a taxpayer over 65 years of age, an additional $500; for a taxpayer who is blind or confined to a bed or a wheelchair for the whole of the taxation year, an additional $500; for charitable donations, up to 10 p.c. of income; and for medical expenses in excess of 3 p.c. of income. 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. An individual who is not resident in Canada at any time during the year but who carries on business in Canada or who earns salary or wages in Canada is taxed only on the income earned in Canada. In computing taxable income earned in Canada, such a non-resident individual is allowed to deduct that part of the exemptions and deductions that may reasonably be attributed to the income earned in Canada. (A non-resident who derives investment income from Canada is taxed in a different way described under a separate heading.) An individual who ceases to be a resident of Canada during the year or who becomes a resident during the year so that he is resident for only part of the year will be subject to income tax in Canada on that part of his income for the year received while he is resident in Canada. In these circumstances the deductions from income permitted for determining taxable income will be the amount that may reasonably be considered as applicable to the period during which he is resident in Canada.

A progressive schedule of rates is applied to taxable income. These rates begin at 11 p.c. on the first $1,000 of taxable income and increase 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.

In calculating the amount of his income tax, an individual is allowed tax credits under three main headings: (1) *Dividend Tax Credit*—to partially eliminate the double taxation of corporate profits and to encourage participation in the ownership of Canadian companies, Canadian resident individuals are allowed to deduct from their tax an amount equal to 20 p.c. of the net dividends they receive from Canadian taxable companies; (2) *Foreign Tax Credit*—foreign taxes paid on income from foreign sources may be credited against Canadian income tax but the credit may not exceed the proportion of Canadian tax relative to such income; and (3) *Abatement under Federal-Provincial Arrangements*—in 1963 the