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 75 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 fiscal 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. The constitutional position of the provinces 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) the provincial rates of income tax coincide with the amount of the federal abatement.

As part of the 1962-67 fiscal 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.

Subsection 1.—Federal Taxes

Individual Income Tax

Every individual who is resident in Canada at any time during a year is liable for the payment of income tax for that year. Every non-resident individual who is employed or carries on business in Canada during a year is required to pay tax on the part of his income earned in Canada. 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 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.

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

* The original agreement was for a 50-p.c. abatement. However, at the conclusion of a federal-provincial conference in late 1963, it was increased to 75 p.c. in respect of deaths occurring after Mar. 31, 1964. Currently, only the estates of domiciliaries of British Columbia qualify for the full 75 p.c. abatement. Quebec and Ontario estates are temporarily eligible for only 50 p.c. because these two provinces have decided for the time being to take a payment from the Federal Government on account of the additional 25-p.c. abatement rather than to increase their succession duty rates.