

Subsection 1.—Federal Taxes

Individual Income Tax

Personal income taxation in Canada is on the basis of residence rather than citizenship. Every individual who is resident in Canada at any time during a year is liable for the payment of income tax on all his income. Every non-resident individual who is employed or carries on business in Canada during a year is liable for tax on his income earned in Canada. 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 extended meaning of residence also includes employees who go from Canada to work under certain international development assistance programs.

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 for a taxation year, 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 such as 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 attending universities, colleges, high schools, public schools or certain other certified educational institutions in Canada may deduct their tuition fees if they exceed \$25 per annum. Students in full-time attendance at universities outside Canada may deduct their tuition fees.

Having computed his income, the individual then calculates his taxable income by deducting certain exemptions and deductions. These exemptions and deductions are as follows: for single status, \$1,000; for married status, \$2,000; for dependent children eligible to receive family allowance,* \$300 per child; for other dependants (as defined in the law), \$550 per dependant; where the taxpayer is 70 years of age or over (or between 65 and 70

* Family allowances are monthly welfare payments by the Federal Government to the parents or guardians of children under 16 years of age. The allowance is \$6 for each child under 10 years of age and \$8 for each child between the ages of 10 and 16. These allowances are not subject to income tax. Payments are also made in respect of children between the ages of 16 and 18 in full-time attendance at educational institutions; such payments of \$10 a month are called youth allowances. The right to deduct \$550 for a dependent child is not affected by the receipt of these youth allowances.