20.6.1 Federal taxes

Individual income tax. Personal income taxation in Canada is imposed on the basis of residence. 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. A non-resident is liable for tax only on income from sources in Canada. The term "residence", generally speaking, is the place where a person resides or where he maintains a dwelling ready at all times for his use. There are also statutory extensions of the meaning of "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 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 resident 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 businesses, property, offices, and employments. Since January 1, 1972, it also includes one half of taxable capital gains.

In computing his income, an individual must include benefits from employment, fees, commissions, dividends, annuities, pension benefits, interest, alimony and maintenance payments. Also included are unemployment insurance benefits, scholarships in excess of $500, benefits under a disability insurance plan to which his employer contributes and other miscellaneous items of income. On the other hand, war service disability pensions paid by Canada or a country that was an ally at the time of the war service, social assistance payments made on a needs-test basis under a prescribed program, compensation in respect of an injury or death paid under a Workmen's Compensation Act of a province and family income security payments do not have to be included in the computation of income.

An employee does not have to include in his income allowances paid to him by his employer to cover travelling expenses to a distant work site, or board and lodging while at the site. In order to qualify, the worker must travel away from his ordinary residence in which he supports his wife or other dependant, the work site must be temporary and the time away from his ordinary residence must be at least 36 hours.

Certain amounts are deductible in computing income. These include contributions to a registered employees' pension plan, premiums to a registered retirement savings plan, premiums under the unemployment insurance program, alimony payments and union dues. An employee may deduct 3% of his salary or wages (up to a maximum of $150 per year) to cover expenses of earning his income. No receipts or details of actual expenditures are necessary to claim this deduction. Expenses of meals and lodging while away from home are deductible by employees who have to travel as they perform their work, such as employees who work on trains or who drive trucks. Where a mother has her children cared for in order that she may work, she may deduct this expense subject to certain limitations. A father may deduct child care expenses where he is the only parent of the family or where the mother is incapable of caring for the children. Expenses of moving to a new work location are deductible from income earned in the new location. These moving expenses may be deducted by salary or wage earners, self-employed persons and, in some instances, by students at post-secondary educational institutions. Students attending universities, colleges, high 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 are also allowed to deduct their tuition fees.

An individual who is carrying on a business may deduct his business expenses in computing his income. These include wages, rents, depreciation (called capital cost allowances), municipal taxes, interest on borrowed money, reserves for doubtful debts, contributions to pension plans or profit-sharing plans for his employees, and bad debts.

All individuals now have to count half of their capital gains as income. They may deduct half of their capital losses against these gains. In the event that half of an individual's losses exceed the amount included in income in respect of capital gains, $1,000 of these losses may be deducted from other income. Losses not deducted in the year incurred may be carried back one year or forward to future years to be deducted. Capital gains or losses are those realized on the disposition of property. Other gains or losses such as from a lottery or gambling are not