included. The sale of personal property at a price not exceeding $1,000, and the sale of a taxpayer's home, do not create a capital gain or loss. A sale or disposition of property is deemed to have taken place when the taxpayer dies or makes a gift of property unless the property is left or given to his spouse. The amount of a capital gain or loss on disposition of property is determined by reference to its adjusted cost basis. Capital gains on property owned at the beginning of the system are computed by reference to the higher of cost or valuation-day value and capital losses by reference to the lower of cost or valuation-day value. When property is acquired after valuation day, actual cost plus or minus adjustments after that date will give the adjusted cost basis. Valuation day for purposes of shares that are publicly traded on Canadian stock exchanges was December 22, 1971 and the valuation day for all other property, such as bonds, rental property, cottages or shares in a private company was December 31, 1971. Special rules apply for individuals who become, or cease to be, residents of Canada. Gains arising out of the conduct of a business continue to be fully taxable.

Having computed his income, the individual then calculates his taxable income by deducting certain exemptions and deductions. These are: for single status, $1,500; for married status, $2,850; for dependent children under age 16, $300 per child; for other dependants (as defined in the law), including dependent children over age 15 and under 21 or over 20 and attending school, $550 per dependant; where the taxpayer is 65 years of age or over, an additional $650; where the taxpayer is blind or confined for the whole of the taxation year to a bed or a wheelchair, an additional $650; charitable donations, up to 20% of income; and medical expenses, the amount in excess of 3% of income. In lieu of claiming deductions for charitable donations and medical expenses an individual may claim a standard deduction of $100.

The extra deduction for married status is reduced where the taxpayer's spouse has income in excess of $250. The deduction of $300 for supporting a child is reduced where the child has income in excess of $1,000 and the deduction of $550 is reduced where the dependant has income in excess of $1,050. The amount of the guaranteed income supplement, which is a payment made to individuals who have little or no income in addition to their old age pension, is deductible in computing taxable income. Individuals who have incurred business losses in other years may deduct these in computing taxable income.

As already stated, an individual who is resident in Canada 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 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. 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 is subject to income tax as a resident of Canada on only that part of his income for the year received while he is resident in Canada. In these circumstances, the deductions from income permitted in determining taxable income are the amounts which may reasonably be considered as applicable to the period during which he is resident in Canada.

A non-resident who disposes of taxable Canadian property (shares of Canadian public corporations are excluded unless ownership exceeds 25%) is liable for tax on one half of any capital gain. Capital gains or losses from the disposal of taxable Canadian property are combined with the non-resident's Canadian employment or business income. This taxation of capital gains is subject to restrictions in a number of tax treaties between Canada and other countries.

Two provisions were enacted in 1971 to provide for averaging income over a period of years where income for a year is unusually high. The first of these is an averaging calculation that will be made by the Department of National Revenue where an individual's income for the year is 20% more than the average of his incomes for the preceding four years and 10% more than his income for the immediately preceding year. This calculation, which will be made without application by the taxpayer, will reduce the effects of the progressive schedule of rates upon an unusual increase in income in the year. The calculation will first be made for 1973, using 1972 as the base. It will not be possible to use four preceding years in the base until 1976. The second averaging device, which first becomes effective for 1972, is by the purchase of a special type of annuity contract called an income-averaging annuity. The cost of this annuity