contract is deductible from income in the year it is purchased and the annuity payments are included in income when received. Only certain kinds of income may be used to purchase an income-averaging annuity. These include capital gains, a lump sum from a pension plan, proceeds from a literary or artistic work or amounts received from activities as an athlete, musician or public entertainer.

The amount of tax is determined by applying a progressive schedule of rates to taxable income. This schedule of rates starts at 17% on the first $500 of taxable income and increases to 47% on taxable income in excess of $60,000. For 1972, tax otherwise payable was reduced by 3%. In addition, the Income Tax Act provides that the rate of tax on the first $500 of taxable income, which is 17% in 1972, will be reduced each year until it becomes 6% in 1976.

Individuals who reside in the Yukon Territory or the Northwest Territories or who reside outside Canada but are deemed to be residents in Canada for tax purposes (such as diplomats and others posted outside the country) must pay an additional tax of 30% of their tax otherwise payable. This tax is intended to correspond in an approximate way to the income tax imposed by the provinces on their residents.

An individual who receives a taxable dividend from a Canadian corporation is allowed to deduct an amount called a dividend tax credit from his tax otherwise payable. This is in recognition of the fact that the earnings from which the dividend is paid have borne corporation income tax. It also provides encouragement for Canadians to participate in ownership of Canadian corporations. The individual increases the amount of the dividends he has received by one third and includes this additional one third in his income. He then deducts from his tax an amount equal to four fifths of the additional one third that was included in his income.

An individual who receives income from foreign sources may deduct from his tax the amount of tax he has paid to a foreign government on his foreign source income. This deduction may not exceed the Canadian tax related to such income.

An individual who earns income in Quebec may deduct 24% of his tax attributable to such income. This abatement of tax is in recognition of the fact that Quebec entirely finances certain programs which are partly financed by the federal government in other provinces.

To a very large extent, individual income tax is payable as the income is earned. Taxpayers in receipt of salary or wages have tax deducted from their pay by their employer and in this way pay nearly 100% of their tax liability during the calendar year. The balance of the tax, if any, is payable at the time of filing the tax return on or before April 30 in the following year. Individuals with more than 25% of their income in a form not subject to tax deductions at the source must pay tax by quarterly instalments throughout the year. Returns of these individuals must be filed on or before April 30 in the following calendar year. Farmers and fishermen pay two thirds of their tax on or before December 31 each year and the remainder on or before April 30 in the following year. Table 20.24 shows the amount of personal income tax payable on various levels of income in 1972.

Corporation income tax. The Income Tax Act levies a tax upon the income from anywhere in the world of corporations resident in Canada and upon the income attributable to operations in Canada of non-resident corporations carrying on business in Canada. One half of capital gains must be included in income. In computing their income, corporations may deduct operating expenses including municipal real estate taxes, reserves for doubtful debts, bad debts and interest on borrowed money. The deduction for interest includes interest on money borrowed to acquire shares in another corporation. There is a limitation on the deduction of interest paid to non-residents. One half of capital losses may be deducted from the capital gains included in income.

Corporations may deduct over a period of years the capital cost of all depreciable property. The yearly deductions of normal capital cost allowances are computed on the diminishing balance principle. Regulations issued under authority of the Income Tax Act established a number of classes of property and maximum rates. Typical rates include 5% and 10% for buildings, 20% for machinery and 30% for automobiles. Where property is disposed of for more than the amount to which it has been written down by capital cost allowances, the excess allowances are "recaptured" through an addition to income or by an adjustment to the undepreciated balance for the class of property.

Accelerated depreciation (full write-off in two years) is allowed in respect of structures