deductions were fixed from time to time by Parliament. The introduction in the 1974 taxation year of a mechanism for indexing personal income tax will result in automatic adjustments each year, to reflect the inflation rate, in the levels of exemptions and deductions. The adjusted personal exemptions and deductions for the 1974 taxation year are: for single status, \$1,706; for married status, \$3,198; for dependent children under age 16, \$320 for each child; for other dependents (as defined in the law), including dependent children over age 15 and under 21 or over 20 and attending school, \$586 each dependent; where the taxpayer is 65 years of age or over, an additional \$1,066, where the taxpayer is blind or confined for the whole of the taxation year to a bed or a wheelchair, an additional \$1,066, 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 \$313. The deduction of \$320 for supporting a child is reduced where the child has income in excess of \$1,166 and the deduction of \$586 is reduced where the dependent has income in excess of \$1,219. 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 a base. It will not be possible to use four preceding years in the base until 1976. The second averaging device, which first became effective for 1972, is by the purchase of a special type of annuity contract called an income-averaging annuity. The cost of this annuity 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. The tax bracket limits are adjusted yearly by means of the indexing mechanism to reflect the rate of inflation. Thus taxpayers are prevented from being pushed into higher marginal tax brackets in the absence of real growth in their income. The schedule of rates starts at 12% on the first \$533 of taxable income (first unit) and increases to 47% on taxable income in excess of \$63,960. The Income Tax Act provides that the rate of tax on the first