capital loss on the disposition of a capital property is determined by reference to the property's adjusted cost base. The adjusted cost base is, subject to a number of adjustments, the cost to the taxpayer of the property. 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. Before 1974 the levels of exemptions and 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 1975 taxation year are: for single status, $1,878; for married status, $3,522; for dependent children under age 16, $352 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, $646 for each dependent; 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. Where a taxpayer is 65 years of age or over or blind or confined to a bed or wheelchair for a substantial period each day during the whole of a 12-month period ending in the year, he may deduct $1,174. To the extent that a taxpayer who qualifies for either the age or disability deduction cannot use the deduction it may be transferred to his or her spouse.

The extra deduction for married status is reduced if the taxpayer's spouse has income in excess of $334. The deduction of $352 for supporting a child is reduced if the child has income in excess of $1,274 and the deduction of $646 is reduced if the dependent has income in excess of $1,332. 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.

Recent amendments to the Income Tax Act have introduced new deductions from a taxpayer's income in the computation of his taxable income. For the 1974 taxation year, a taxpayer may deduct up to $1,000 of his interest income in the year. For the 1975 and subsequent taxation years, the deduction is broadened so that a taxpayer may also deduct his dividend income. A taxpayer will thus be able to deduct up to $1,000 of any combination of his interest and dividend income in the year. Further, the interest and dividend deduction will operate so that the first $1,000 of interest and dividend income received by a taxpayer in a year will not reduce his or her spouse's marital exemption.

Another new deduction from income, effective for the 1975 taxation year, is the pension income deduction. By virtue of the deduction, a taxpayer who is 65 years of age or over will be able to deduct up to $1,000 of his pension income including amounts he receives from pension plans and from annuities under registered retirement savings plans and deferred profit sharing plans. A taxpayer under 65 years of age may deduct his "qualified pension income". Qualified pension income includes amounts received by a taxpayer from a pension plan and certain amounts the taxpayer receives as a consequence of the death of his or her spouse. The pension income deduction is transferable between spouses to the extent that the spouse of a taxpayer cannot use his or her deduction.

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