charitable donations, medical expenses, income of a spouse or children, age (if 65 or over) and certain disabilities. Details are provided in an annual tax guide which is sent to each taxpayer; copies are also available in post offices and district taxation offices.

The amount of tax is determined by applying a schedule of progressive rates to taxable income. The tax bracket limits are adjusted yearly by means of the indexing mechanism. 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 for the 1978 taxation year (as of January 1978) starts at 6% on the first $761 of taxable income and increases to 43% on taxable income in excess of $91,260. These rates were reduced in 1977 as part of the revised federal-provincial fiscal arrangements. The new arrangements contained a transfer of tax room to the provinces whereby federal tax rates were reduced and provincial tax rates were increased. The net effect of this transfer leaves the combined federal and provincial tax burden on individuals unchanged.

After all calculations are made, there is deducted from the tax otherwise payable an amount called the federal tax credit. In 1978, this is equal to the greater of $300 or 9% of tax payable to a maximum of $500. In addition, there is a child credit of up to $50 for each dependent child under age 18. The overall maximum for the tax credit and child credit is $500.

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 (43% in 1978) 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.

To a large extent, individual income tax is payable as income is earned. Taxpayers on salary or wages have tax deducted from pay by the 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. The deadline for individual income tax is April 30 for income of the previous calendar year. Individuals with more than 25% of income in a form not subject to tax deductions at source must pay tax by quarterly instalments. Returns of these individuals must be filed on or before April 30 of the following calendar year. Farmers and fishermen pay two-thirds of tax on or before December 31 each year and the remainder on or before April 30 of the following year. Table 20.18 shows the amount of personal income tax payable on various levels of income in 1978.

Canadian employers are required to deduct and remit to the government income tax from the amounts paid to their employees as wages and salaries. The government provides employers with deduction tables to guide them in calculating the amount of federal and provincial income taxes, Canada Pension Plan contributions and unemployment insurance premiums to be withheld.

Corporation income tax. The Income Tax Act levies a tax upon 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. Half of capital gains must be included in income. In computing income, corporations may deduct operating expenses including municipal real estate taxes, reserves for doubtful debts, bad debts and interest on borrowed money.

Corporations may deduct over a period of years the capital cost of all depreciable property. The normal capital cost allowances are computed each year on the diminishing balance principle. Regulations established a number of classes of property and maximum rates. Typical rates include 5% for buildings, 20% for machinery and 30% for automobiles. Accelerated depreciation (full write-off in two years) is allowed on machinery and equipment acquired by manufacturers and processors after May 8, 1972 for use in Canada.

Current or capital expenditures on scientific research related to the business of the taxpayer may be written off for tax purposes in the year when incurred or any subsequent year.

A corporation whose principal business is mining, oil production or a related activity may deduct Canadian exploration expenses from income from any source in the