personal and corporation income tax otherwise payable in all provinces and the estate tax otherwise payable in three provinces were abated by certain percentages to make room for provincial levies.

Federal tax amendments resulting from tax reform, effective for the most part from 1972, included a new personal income tax rate structure not designed to be abated in the previous way. At the same time the federal estate tax was terminated. As a result, the arrangement under which federal taxes are abated has general application only for the corporation income tax. All provinces impose taxes on the income of individuals and corporations but only one province, Quebec, imposes taxes on property passing at death. The federal government has tax collection agreements under which it collects provincial personal income taxes for all provinces except Quebec and provincial corporation income taxes for all provinces except Ontario and Quebec. Quebec imposes succession duties and collects them.

Federal taxes

22.6.1

Individual income tax. The federal government has adopted a tax system in which taxpayers volunteer the facts about their incomes and calculate the taxes they must pay. Every individual resident in Canada is liable for the payment of income tax on all his income regardless of where it is earned. A non-resident is liable for tax only on income from sources in Canada. Residence is the place where a person resides or where he maintains a dwelling ready at all times for his use. There are also statutory extensions of the meaning of resident to include a person who has been in Canada for an aggregate period of 183 days in a taxation year, a person who was during the year a member of the armed forces of Canada, an officer or servant of Canada or of any one of its provinces, or the spouse or dependent child of any such person. The extended meaning of resident also includes employees who go from Canada to work under certain international development assistance programs.

Canadian tax law uses the concepts of income and taxable income. Income means income from all sources inside or outside Canada and includes income for the year from businesses, property, offices and employment. Since January 1, 1972, it has also included half of any capital gains.

In computing income, an individual must include benefits from employment, fees, commissions, dividends, annuities, pension benefits, interest, alimony and maintenance payments. Also included are unemployment insurance benefits, family allowance payments, scholarships in excess of $500, benefits under a disability insurance plan to which his employer contributes and other miscellaneous items of income. A number of items are expressly excluded from income, including certain war service disability pensions, social assistance payments, compensation for an injury or death under provincial worker compensation acts, family income security payments and guaranteed income supplement which is a payment made to individuals over age 65 who have little or no income in addition to their old age pension.

Half of capital gains is included in income. Taxable capital gains are determined by deducting capital losses from capital gains and dividing by two. In the event that losses exceed capital gains, $2,000 of allowable capital losses may be deducted from other income. Allowable capital losses that are not absorbed in the same year may be carried over to apply in other years. Losses on small business shares can be written off against other income without limit. Capital gains or losses relate to disposition of property. Other gains or losses, for example, resulting from a lottery or gambling, are not included. The sale of personal property at a price not exceeding $1,000 and the sale of a home do not give rise to a capital gain or loss.

Certain amounts are deductible in computing income. These include contributions to a registered employee pension plan, premiums to a registered retirement savings plan, premiums under the unemployment insurance program, contributions to the Canada and Quebec pension plans, alimony payments and union dues. A taxpayer 18 years of age or over who does not own a house or whose spouse does not own one may deduct contributions up to $1,000 a year to a lifetime maximum of $10,000 to a registered home-ownership savings plan. The proceeds of such plans will be taxable