when they are paid to the taxpayer unless they are applied by him to the purchase of a home. An employee may deduct 3% of salary or wages up to a maximum of $500 a year to cover expenses of earning his income. No receipts or details of actual expenditures are necessary to claim this deduction. Expenses of meals and lodging while away from home are deductible by employees who have to travel as they perform their work, such as employees who work on trains or who drive trucks. When a mother has her children cared for in order that she may work, she may deduct this expense subject to certain limitations. Expenses of moving to a new work location are deductible from income earned in the new location. Students attending universities, colleges or certain other certified educational institutions in Canada may deduct their tuition fees.

An individual carrying on a business may deduct business expenses. These include wages, rents, depreciation (called capital cost allowances), municipal taxes, interest on borrowed money, reserves for doubtful debts, contributions to pension plans or profit-sharing plans for his employees, and bad debts.

Having computed this net income, an individual calculates taxable income by subtracting certain personal exemptions and deductions. Before 1974 the levels of exemptions and deductions were fixed from time to time by Parliament. In the 1974 taxation year a mechanism was introduced for indexing personal income tax that results in automatic adjustments each year to reflect the inflation rate in the levels of exemptions. The indexed personal exemptions for each year are based on such factors as married or single status, dependent children, other dependents, age (if 65 or over) and certain disabilities. Exemptions for married status or dependent children may be reduced depending on income of a spouse or children. 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.

An individual may claim a deduction for medical expenses and charitable donations in computing taxable income. A taxpayer is also able to deduct up to $1,000 of Canadian investment income from interest, dividends or capital gains. In addition, a taxpayer who is 65 or over is able to deduct up to $1,000 of his private 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 may deduct up to $1,000 of qualified pension income. This includes amounts received from a pension plan or as a consequence of death of a spouse. Students who attended designated educational institutions and were enrolled in a qualifying educational program are entitled to a deduction of $50 per month for each month of the qualifying year. Individuals who have incurred business losses in other years may deduct these in computing taxable income. Individuals may also deduct up to $2,000 of any carried-over capital losses against the year's non-capital income.

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 federal marginal tax rates for the 1979 taxation year (as of January 1979) started at 6% on the first $829 of taxable income and increased to 43% on taxable income in excess of $99,480. The 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 federal tax otherwise payable an amount called the federal tax reduction. In 1979, this was equal to 9% of tax otherwise payable with a minimum reduction of $200 and a maximum reduction of $500. There was also a refundable child tax credit of up to $218 for each dependent child under 18. The threshold family income level up to which full child credit benefits were paid was $19,620. These amounts are also indexed to changes in the rate of inflation. The credit is reduced by 5% of family income in excess of this threshold and is claimable by the parent who receives family allowances. In respect of the child where the credit exceeds tax payable the excess is refunded to the claimant.