

There are also exemptions for bequests to children of the deceased. A bequest to a child over 25 (if he is not infirm) is exempt to a maximum of \$10,000. A bequest to a child 25 or under is exempt to the extent of a maximum of \$10,000 plus \$1,000 for each full year remaining until he is 26. If the average income of the child for the previous three years is in excess of \$5,000, the additional exemption is reduced by the excess. A bequest to an infirm wholly dependent child is exempt to the extent of a maximum of \$10,000 plus \$1,000 for each full year remaining until he is 71. In all these cases the exemption cannot exceed the value of the bequest. An indefeasible bequest to a charitable organization in Canada is also completely exempt.

After these deductions from aggregate net value are made, the amount left is the "aggregate taxable value" to which the tax rates are applied. The first bracket of the rate schedule - from \$0 to \$20,000 of aggregate taxable value - has a zero rate, which in effect constitutes a basic exemption of \$20,000. The next \$20,000 of aggregate taxable value has a rate of 15 per cent and so on up to the maximum rate of 50 per cent on the aggregate taxable value in excess of \$300,000. Gifts made by the deceased during his lifetime that were not included in the value of his estate but were in excess of the gift tax exemptions are added to the aggregate taxable value to the extent of the excess, as is the amount of gift tax that would be payable on this excess using the rates in force at the time of his death. This is only for purposes of setting the rates of estate tax and an allowance is made in recognition of the gift tax paid on them.

From the tax so calculated may be deducted in the following order: (1) a tax abatement in respect of property situated in a province that levies a succession duty, or in respect of foreign personal property transmitted in such a province; (2) a credit for gift tax paid on gifts made by the deceased in cases where the value of the property in the gift has been included in computing the aggregate net value (e.g., where the gift has been made within three years of the death of the donor; (3) a credit for foreign death taxes; and (4) the "notch" credit.

The tax abatement referred to above is in recognition of provincial succession duties. It is a deduction of 75 per cent from the federal estate tax otherwise payable in the case of property situated, or foreign personal property transmitted, in British Columbia, and of 50 per cent in the case of such property in Ontario or Quebec.

The "notch" credit has the effect of preventing the tax otherwise payable on an estate whose aggregate net value is immediately in excess of \$50,000 from reducing the value after tax to less than \$50,000; it also reduces the tax otherwise payable on an estate whose value falls in this "notch" area so that the tax actually payable will not exceed 50 per cent of the difference between the aggregate net value and \$50,000.

Where an exemption from gift tax or estate tax in respect of a gift or bequest from a person to his spouse in the form of a trust or other settlement has been allowed, the property in the settlement at the time of the death of the spouse second to die is deemed to be property passing on her (or his) death. Where the estate tax on such property would have been abated in recognition of provincial succession duties at the time of the death of the spouse first to die, but was not, because the property was exempt, an appropriate abatement is given at the time of the second death.