

The most recent arrangement became operative on April 1, 1962, and will run until March 31, 1967. Basically, it entails a partial federal withdrawal from the field of direct taxation and the re-entry of all provinces into the vacated area.

Under this new arrangement, the Federal Government will reduce its personal income tax otherwise payable on income earned in a province, and on income received by a resident of a province, by the following percentages: 16 percent in 1962; 17 percent in 1963; 18 percent in 1964; 19 percent in 1965; 20 percent in 1966.

Also under this new arrangement the Federal Government has reduced its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 percent of taxable income earned in any province except Quebec and 10 percent of taxable income earned in Quebec. The additional 1 percent reduction in respect of taxable income earned in Quebec is to compensate for the additional tax levied by the province on corporation income to provide grants to universities. These provincial grants replace federal grants which in other provinces are paid to the universities by the Federal Government through the Canadian Universities Foundation. (This additional 1 percent in Quebec has not yet been brought into force by legislation.)

The Federal Government will continue to abate the estate tax otherwise payable by 50 percent in respect of property situated in a province which levies its own death tax. Only Ontario and Quebec have signified their intention to levy death taxes in the form of succession duties for the period 1962-67.

The above-mentioned reductions in federal income tax and estate tax under the new arrangement do not apply to the Yukon or the Northwest Territories or to income earned outside Canada. The Yukon and Northwest Territories do not impose income taxes or death taxes.

The provincial tax rates are not restricted to the extent of the federal withdrawal. Their constitutional position permits them unlimited use of direct taxes for the raising of revenue for provincial purposes. However, in all but four provinces (Ontario, Quebec, Manitoba and Saskatchewan) the provincial rates of income tax coincide with the amount of the federal abatement.

As part of this new arrangement, the Federal Government has entered into tax-collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except Ontario and Quebec.

Federal Taxes

Individual Income Tax

Every individual who is a resident of Canada at any time during a year is liable for the payment of income tax for that year. In addition, every non-resident individual who is employed or carries on business in this country during a year is required to pay tax on the part of his taxable income earned in Canada. Canadian taxation practice is based to a large extent on the British experience. This is reflected particularly in the fact that taxation is on the basis of residence rather than citizenship, and in the tax freedom for capital gains. The term "residence" is difficult to define simply but, generally speaking, it is taken to be the place where a person resides or where he maintains a dwelling ready at all times, for his use. There are also extensions of the meaning of "Canadian resident" to include a person who has sojourned in Canada for an aggregate