As already stated, an individual resident in Canada for the whole year is taxed on his income from both inside and outside Canada. An individual who is not resident in Canada at any time during the year but who carries on business in Canada or who earns salary or wages in Canada is taxed only on the income earned in Canada. In computing taxable income earned in Canada, such a non-resident individual is allowed to deduct that part of the exemptions and deductions that may reasonably be attributed to the income earned in Canada. (A non-resident who derives investment income from Canada is taxed in a different way, described under a separate heading.) An individual who ceases to be a resident of Canada during the year, or who becomes a resident during the year, so that he is resident for only part of the year will be subject to income tax in Canada on only that part of his income for the year received while he is resident in Canada. Under these circumstances, the deductions from income permitted for determining taxable income will be the amount which may reasonably be considered as applicable to the period during which he is resident in Canada.

A progressive schedule of rates is applied to taxable income. These rates begin at 11 per cent on the first $1,000 of taxable income and increase to 80 per cent on taxable income in excess of $400,000. In addition, an old-age security tax is levied on taxable income at the rate of 4 per cent, with a maximum of $120 reached at the level of $3,000.

After calculating income tax using this progressive schedule of rates, an individual is allowed a deduction from this tax under four main headings:

a) Dividend tax credit:

In order partially to eliminate the double taxation of corporate profits and to encourage participation in the ownership of Canadian companies, Canadian resident individuals are allowed to deduct from their tax an amount equal to 20 per cent of the net dividends they receive from Canadian taxable companies.

b) Foreign tax credit:

Foreign taxes paid on income from foreign sources may be credited against Canadian income tax, but the credit may not exceed the proportion of Canadian tax relative to such income.

c) Abatement under federal-provincial arrangements:

In 1965, the federal personal income tax otherwise payable on the income of a resident of a province and on income earned in a province is reduced by 21 per cent. This abatement will increase to 24 per cent in 1966. *

---

* Except in the case of income earned in Quebec or received by a resident of Quebec, where it is 44 per cent in 1965 and will be 47 per cent in 1966 (see Introduction).