

These reductions in federal income tax and estate tax 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 or inheritance taxes.

The provincial tax rates are not restricted to the extent of the federal withdrawal. The constitutional position of the provinces permits them unlimited use of direct taxes for the raising of revenue for provincial purposes. However, in three provinces (Prince Edward Island, Nova Scotia and British Columbia), the provincial rates of income tax do not exceed the federal abatement.

As part of the current fiscal arrangements, 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

Personal income taxation in Canada is on the basis of residence rather than citizenship.

Every individual who is resident in Canada at any time during a year is liable for the payment of income tax on his income from all sources both inside and outside Canada. Every non-resident individual who is employed or carries on business in Canada during a year is liable for tax on his income earned in Canada. 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 period of 183 days in a taxation year, or a person who was during the year a member of the armed forces of Canada, or an ambassador, a high commissioner, or an officer or servant of Canada or of any one of its provinces, or the spouse or dependent child of any such person.⁽²⁾

The Canadian tax law uses the conceptions "income" and "taxable income". The income of a resident of Canada for a taxation year comprises his income from all sources inside or outside Canada and includes income for the year from all businesses, property, offices and employments. It does not include capital gains unless they arise out of the conduct of a business or as a result of an adventure in the nature of trade.

In computing his income for a taxation year, an individual must include dividends, fees, annuities, pension benefits, interest, alimony, maintenance payments and other miscellaneous sources of income. On the other hand, war service disability pensions paid by Canada or an ally of Her Majesty at the time of the war service, unemployment insurance benefits, social assistance

(2) See also Section 139(3)(c) of the Income Tax Act, which extends residence to employees under certain development assistance programs.