

Two provisions were enacted in 1971 to provide for averaging income over a period of years where income for a year is unusually high. The first of these is an averaging calculation that will be made by the Department of National Revenue in which an individual's income for the year is 20 percent more than the average of his incomes for the preceding four years and 10 percent more than his income for the immediately-preceding year. This calculation, which will be made without application by the taxpayer, will reduce the effects of the progressive schedule of rates upon an unusual increase in income in the year. The calculation will first be made for 1973, using 1972 as the base. It will not be possible to use four preceding years in the base until 1976.

The second averaging device, which first becomes effective for 1972, is by the purchase of a special type of annuity contract called an income-averaging annuity. The cost of this annuity contract is deductible from income in the year it is purchased and the annuity payments are included in income when received. Only certain kinds of income may be used to purchase an income-averaging annuity. These include capital gains, a lump sum from a pension plan, proceeds from a literary or artistic work or amounts received from activities as an athlete, musician or public entertainer.

The amount of tax is determined by applying a progressive schedule of rates to taxable income. This schedule of rates starts at 17 per cent on the first \$500 of taxable income and increases to 47 per cent on taxable income in excess of \$60,000.

For 1972, tax otherwise payable is reduced by 3 per cent. In addition, the Income Tax Act provides that the rate of tax on the first \$500 of taxable income, which is 17 per cent in 1972, will be reduced each year until it becomes 6 per cent in 1976.

Individuals who reside in the Yukon or Northwest Territories, or who reside outside of Canada but are deemed to be residents in Canada for tax purposes (such as diplomats and others posted outside the country), must pay an additional tax of 30 per cent of their tax otherwise payable. This tax is intended to correspond in an approximate way to the income tax imposed by the provinces on their residents.

An individual who receives a taxable dividend from a taxable Canadian corporation is allowed to deduct an amount called a dividend tax credit from his tax otherwise payable. This is in recognition of the fact that the earnings from which the dividend is paid have borne corporation income tax. It also provides encouragement for Canadians to participate in ownership of Canadian corporations. The individual increases the amount of the dividends he has received by one-third and includes this additional one-third in his income. He then deducts from his tax an amount equal to four-fifths of the additional one-third that was included in his income.

An individual who receives income from foreign sources may deduct from his tax the amount of tax he has paid to a foreign government on his foreign source income. This deduction may not exceed the Canadian tax related to such income.

An individual who earns income in the Province of Quebec may deduct 24 per