

The current agreement 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 in the vacated area. The Federal Government reduces 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% in 1962  
17% in 1963  
18% in 1964  
19% in 1965  
20% in 1966.

Also, the Federal Government reduces its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 per cent of taxable income earned in any province except Quebec and 10 per cent of taxable income earned in Quebec. The additional 1 per cent reduction in respect of taxable income earned in the Province of 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. Finally, the Federal Government abates the federal estate tax otherwise payable by 50 per cent in respect of property situated in a province which levies its own death tax. Only Ontario, Quebec and British Columbia at present levy death taxes in the form of succession duties.

These reductions in federal income tax and estate tax under the terms of the 1962-67 fiscal arrangements 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. The constitutional position of the provinces 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 the 1962-67 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

Every individual who is resident in Canada at any time during a year is liable for the payment of income tax for that year. Every non-resident individual who is employed or carries on business in Canada during a year is required to pay tax on the part of his income earned in Canada. Canadian taxation practice is based on 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