after 42-43 change

AH7

Your 1942

INCOME TAX

(Revised May 1943)

A Simplified Explanation of the 1942 Income Tax for the Individual Taxpayer, with a View to Answering Questions Most Frequently Raised.

ISSUED BY

DEPARTMENT OF NATIONAL REVENUE

INCOME TAX DIVISION

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Minister of National Revenue

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CONTENTS

Foreword

by the Minister of National Revenue

THERE has been a wide distribution of the booklet, "Your 1942 Income Tax," which was printed last summer. It has now been revised to bring in the changes introduced by the 1943 legislation. In addition the material has been rearranged so that ready reference can be made to the appropriate sections by a taxpayer when completing Form T.1 Special 1942.

Form T.1 Special 1942 is the form which will be used by the vast majority of taxpayers. It has been simplified to enable the Return which is due on 30th June, 1943, to be prepared without making any calculations other than a few simple additions and subtractions.

The 1943 legislation introduced a full pay-as-you-earn plan. Now every taxpayer will be paying most of his Income Tax in the same year that he actually earns the income.

Without some adjustment, however, this change would have resulted in a hardship. It would have meant that taxpayers would be paying their current year's tax, plus a substantial portion of last year's tax, all in the year 1943. To overcome this difficulty, one-half of the 1942 tax liability on earned income has been cancelled.

Consequently, most taxpayers will have only a comparatively small balance to pay with their 1942 return. In fact, many will have an amount at their credit which they may have applied against their 1943 tax or which they may have refunded. At the same time, they will no longer be liable for large Income Tax debts in some future years should their incomes be decreased.

It would, of course, be impossible to cover in a booklet of this size every point that may arise, but if you have further questions write to, or call at the office of, your District Inspector of Income Tax, where you will be given every assistance possible.

Colin Gibson

PART 1.

Who Must File a 1942 Income Tax Return?

Single Persons.

A single person who had an income for 1942 of more than $660 must file a 1942 Return. For Income Tax purposes, this may include a person who is married—see Part I (b), (c) and (d) of Item 14 on Form T.1 Special 1942.

Married Persons.

A married person, or an unmarried person entitled to claim equivalent status (see page 8), who had an income for 1942 of more than $1200 must file a 1942 Return.

If Any Tax Deductions Made.

In particular, every person who had any tax deductions made from his earnings during 1942 should file a 1942 Return, except those employees who have filed "Form T.D. 20A 1942" (Tax Refund Claim by an employee who in 1942 earned less than $660, if single, or $1200, if married).

If No Balance Payable.

Even if the 1942 tax deductions made from your earnings have equalled or exceeded your 1942 tax so that you have no balance to pay, you must still file a 1942 Return. Deduction at the source is a method of payment **on account** of the total tax liability. The filing of an Income Tax Return by persons who are liable to tax is a necessary part of the law. If you do not file a return by 30th June, 1943, you will be charged a penalty of 5% of the amount of the full tax (not just 5% of the balance owing at 30th June, 1943). Furthermore, by filing a return you will obtain a credit or refund for any overpayment and establish the Refundable Portion of the tax which is to be returned to you with interest after the war.

PART 2.

What Forms Are There? Where Can They Be Obtained?

Form T.1 Special.

Form T.1 Special 1942 is the form to be used by all individuals whose 1942 total income was **not over** $3,000, including **not over** $1,500 from investments, except proprietors or partners in a business and members of the Navy, Army and Air Force. You will need two copies—one to send in to the District Inspector and one to keep for future reference.

Form T.1 General.

Form T.1 General 1942 is the form to be used by all other individuals. Two copies of this form must be sent to the District Inspector.

Where to Get Forms.

It is probable that your employer has copies of the forms but, if not, they can be obtained from your District Inspector of Income Tax or at your post office. The responsibility for procuring the necessary forms and filing Returns rests upon the taxpayer.

Form T.1 Special

PART 3.

Form T.1 Special 1942

This is the form on which the vast majority of taxpayers will make their 1942 Income Tax Return.

It is a simplified form.

You put down your name and address, and a few other facts which are necessary for record purposes. You list your dependents; the Voluntary Savings which may be deducted from the Compulsory Savings Portion of the tax; and your income. You indicate your marital status by a check mark. You find the Total Tax and Savings Portion applicable to your income in the Tables which are a part of the form. The only calculations you are required to make are a few additions and subtractions.

Care should be taken in filling out the form as there are penalties for filing an incomplete or false Return.

Following is further information regarding some of the items on the form.

Item 6—If more than one employer

If More Than One Employer.

If you worked for more than one employer during 1942, you must attach a statement showing particulars. In order to be in a position to do so, you should

Form T.1 Special

communicate with each of your 1942 employers and ask for your copy of the "T.4 slip" (see page 4). This will give you the information necessary to make up the required statement, which should be along the lines of the following example:—

John Jones, 215—1st Avenue, Anytown, Canada.

STATEMENT OF WAGES RECEIVED DURING 1942

Employer's Name	Total Wages	Value of Free Board, etc.	Amount of Pension Deduction	Total of Tax Deductions
Canada Corporation (Hometown).	$ 455.00	—	—	$ 22.75
Dominion Co. Ltd. (Hometown). .	570.00	—	$20.00	28.50
War Plants Ltd. (Anytown).	610.00	—	—	61.00
	$1,635.00	—	$20.00	$112.25
	(6)*	(7)*	(8)*	(9)*

***Note**—Each number shown above is the number which appears on the corresponding column of the "T.4 slip."

Item 8—"Dependents"

Dependent Children.

You may include as a "dependent" each of your children or grandchildren (including legally adopted children or stepchildren) who were wholly dependent on you and who were under 18 years of age any time during 1942, or, if they had passed their 18th birthday before 1st January, 1942, were dependent on account of mental or physical infirmity. You may also include a child, over 18 but under 21 any time during 1942, who was a student at an educational institution. If you and your wife each have taxable income, the deductions may be taken by either of you as you choose, but in the event of a dispute they will generally be allowed to the father.

Dependent Relatives.

To qualify as a "dependent," a dependent relative must be—

(1) a dependent brother or sister (or stepbrother or stepsister), with the same limitations as to age as apply to a dependent child (see above); or

(2) a dependent parent (or step-parent) or grandparent who was unfit for work because of mental or physical infirmity.

No claim may be made in Item 8 of the form for dependent parents-in-law, grandparents-in-law, brothers-in-law, sisters-in-law, uncles, aunts, nephews, nieces, etc.

Non-resident Dependents.

A "dependent" must be a resident of Canada, the British Empire or the United States; or be a subject or citizen of an allied country prevented by the war, or legally debarred, from entry into Canada.

Meaning of "Wholly Dependent."

It should be noted that any person claimed as a dependent on Form T.1 Special 1942 must be **wholly dependent** on you. This means—

(1) that you are the only taxpayer who is contributing to the support of such person (if others also contribute, see next paragraph); and

(2) that the person claimed as a dependent did not have income of his (or her) own of more than $400 during 1942.

Partially Dependent Relatives.

As will be evident from the example shown on page 9, the Tables to be used with Form T.1 Special 1942 have been prepared allowing full credit for each dependent. A taxpayer who, along with one or more other members of his family, contributes to the support of a dependent is not entitled to the full credit but is entitled to only a part of it. Consequently such a dependent may not be entered on the form.

If, however, you have helped to support a "dependent relative" (as described above, whose own income was not more than $400 during 1942, you may attach to your Return a Claim for Tax Credits—**Form T.1-E,** or a statement showing—

Partially Dependent Relatives.

(1) name and address, age, marital status (i.e. whether married or single), relationship to you, and the 1942 income of the dependent relative;

(2) the amount actually contributed by you during 1942 less any amounts received from, or on behalf of, the dependent relative; and

(3) the amount contributed by, and the name and address of, each other person who contributed to the support of the dependent relative.

This information is necessary because the credit, which is limited under the statute to a total sum and a percentage of the amount contributed, must be pro-rated to the several contributors in proportion to their respective contributions.

The District Inspector will then make whatever adjustment to your return the law will permit.

Item 9—Statement of Voluntary Savings

Statement of Voluntary Savings.

Some types of personal Voluntary Savings may be used as an offset against the Compulsory Savings (i.e. the Savings Portion) included in the 1942 tax. If over 65 years of age at 31st December 1942, you do not need to complete Item 9 of the form as you are not required to pay the Savings Portion of the tax.

The types of Voluntary Savings which may be deducted fall into three main categories, namely—

(a) payments into superannuation, retirement or pension funds;

(b) premiums on life insurance policies and on annuity or certain savings contracts; and

(c) principal payments on a mortgage or agreement of sale.

The rules which must be complied with in each case are dealt with in the paragraphs immediately following.

Superannuation, Pension and Retirement Payments.

Superannuation, pension and retirement payments must be made by reason of your employment or in connection with the pension portion of membership dues in a trade union, and the fund or plan must be approved by the Minister of National Revenue. Your employer or trade union will be able to tell you whether your contributions are deductible.

Life Insurance Premiums.

In the case of any life insurance policy in force prior to 23rd June 1942, you may claim the full amount paid during 1942 for one year's premium less (except in the case of an industrial or fraternal policy for an amount of less than $1,000) any dividends withdrawn or applied in reduction of premiums or loans, policy loans obtained or increased, or cash values received in 1942. Such a policy may be on your own life or that of your wife or a "dependent" (see page 2).

In the case of any policies entered into on or after 23rd June 1942, you may claim only one-half of the first year's premiums, and in any year up to an aggregate amount of $100. Furthermore, such a policy must be on your **own** life, and must be either—(1) on the term plan for a period of not less than five years, or (2) one in which the premiums are payable throughout your whole lifetime, or (3) one in which the plan calls for premiums to be paid for a term of at least 30 years and until you reach at least age 65. Claims for premiums on policies taken out on or after 23rd June, 1942, must be supported by completed Form T.1 Life Insurance Supplementary obtainable from District Inspectors or life insurance companies.

Payments on Annuity or Savings Contracts.

In every case, annuity or savings contracts must have been in force prior to 23rd June 1942 and be Dominion of Canada Government annuities or of such a nature that you cannot postpone payments without incurring a substantial loss.

Payments on Annuity or Savings Contracts.

Annuity contracts may be on your own life or that of your wife or a "dependent" (see page 2).

Savings contracts must be of a type whereby you are required to make periodic payments for a term of years. They must be of a kind offered to the public or a large class of persons and do not include a contract made with someone not engaged in the business of making such contracts.

Principal Payments on Mortgages, etc.

Mortgage **principal** payments only may be claimed; interest payments are **not** deductible. The mortgage or agreement of sale must have been registered prior to 23rd June 1942 or you must be able to establish that it was an enforcible obligation prior to that date. Payments must be only in respect of **one** residential property, registered in your name or the name of your wife (or husband), whether occupied by you or not, and may cover a duplex or apartment house. Payments as guarantors, sureties, etc., cannot be deducted.

Receipts Required.

You must file receipts with your Return for payments into a superannuation or pension fund or plan (unless the amounts have been deducted from your pay by your employer) and for principal payments on mortgages and sale agreements. These receipts must be in sufficient detail to show the nature of each payment and that the amounts you claim were actually paid during 1942. For instance, promissory notes will not be recognized as payments, nor cheques as receipts. Receipts are not required for insurance premiums because the payments you report will be verified with the insurance companies.

Item 10A—Salary, Wages, etc.

Salary, Wages, etc.

Your total earnings, including any bonus, gratuity, cost-of-living bonus, etc., and before deductions of any kind whatsoever are "income." If your employer furnishes you with board or living quarters, or pays any expenses (such as taxes or insurance) on your behalf, or gives you groceries or other supplies, or provides you with a living allowance, he must place a reasonable value on these and this value must also be included as income in your Return. This is fair because, otherwise, you would have an advantage over other taxpayers who must pay cash for these things.

Form T.4 slip.

At the end of May, 1943, your employer must prepare a statement showing, in respect of the calendar year 1942, the names of all his employees, the wages paid to each, and all tax deductions. This statement is known as Form T.4. Four copies are made—two to be sent to the District Inspector; one to be kept by the employer; and one to be distributed by giving each employee (who earned over $660 or from whose wages tax deductions were made) the portion applying to him. This portion, which shows the employee's name, his 1942 wages and his 1942 tax deductions, is the "T.4 slip." This is an important document. It represents your employer's statement to you of the tax deductions he has made on your behalf. It will give you some of the information necessary to complete your Return. It will enable you to be sure that the amounts reported by you will agree with the amounts your employer is required to report to the Income Tax Division.

Superannuation and Pension Payments.

In certain cases you may deduct the amount withheld by your employer from your salary or wages for a superannuation or pension fund. Your employer will know whether or not your contributions are exempt. However, the most you may deduct on this account is $300 even though you contribute more. Any superannuation or pension fund payments which qualify as a proper deduction from your salary or wages should also be entered as Voluntary Savings in Item 9(a). On the other hand, there are some Government approved superannuation, retirement or pension funds or plans, the payments into which may be entered in Item 9(a) as Voluntary Savings, but which may not be subtracted from salary or wages. For example, when the trustees of a pension fund have elected to have the fund and payments therefrom exempted from Income Tax, payments into the fund are not permitted as deductions from income.

Item 10D—Other Income

Taxable Items.

You enter here all other income such as interest, dividends, rents, royalties, annuities, income from an estate, and pensions. Further information regarding these items of other income is given below.

Details Required.

You will note that you must give the details of such income. In addition to naming the source of each item of income, you should show—

(1) the gross amount (that is what you receive **plus** any tax deducted at source);

(2) any expenses or allowances to be deducted therefrom;

(3) the net amount—that is (1) less (2); and

(4) any tax deducted at the source from such income.

The "net amount," (3) above, is what you should enter as income in Item 10D. Credit for any tax deducted at the source should be taken by entering the total of such deductions in Item 12D.

Non-Taxable Items.

You do **not** include as income any capital gains, such as profits from the sale of real estate, furniture, stocks or bonds. Gifts, except when they come from an employer, are not taxable. Also do **not** enter such items as compensation for sickness or accident, or for damages to yourself or your property.

Insurance Benefits.

Benefits from insurance policies are generally not taxable but interest on any money left on deposit with an insurance company (such as the proceeds of a matured policy) is taxable. Examples of non-taxable receipts of this nature include dividends on participating policies; proceeds of a group insurance policy received by an employee's beneficiary; payments from disability, accident or sickness policies; workmen's compensation payments; and the cash received from a life insurance policy on the death of the assured, or if the policy is surrendered for its cash value. If you are in receipt of the proceeds of a policy, payable to you in instalments over a period of years, the amount representing interest is taxable and you should ask the insurance company how much is principal and how much is interest.

Dependents' Allowance.

Dependents of members of the Canadian Active Service Forces are **not** taxable on assigned pay or allowances they receive. They pay a tax only on their **own** earnings and their **own** other income.

Interest.

All interest receipts, including bank and mortgage interest and bond coupons, are taxable. Interest on War Bonds is taxable. Interest from bank deposits should be shown **net**—that is, after deducting bank service charges, if any. No part of the amount you receive on the redemption of War Savings Certificates is taxable.

Dividends.

Allowances may be claimed for depletion of the following percentages of the gross amount of:

Dividends from Canadian mining and oil producing companies, 20%.

Dividends from British and Foreign mining companies, 20%.

Dividends from British and Foreign oil producing companies, 10%.

You may also deduct "carrying charges" which include collection charges, interest on margin accounts or on money borrowed to buy shares. Do **not** deduct brokerage charges on purchases or sales of securities.

Rents.

On the form or on an attached statement, show separately for each rented property you own—

(1) the gross income,

(2) the expenses, and

(3) the net income

Rents.

You may claim as expenses such items as property taxes, repairs and depreciation.

Royalties.

Allowances may be claimed for depletion of the following percentages of the gross amount of:

Royalties from Canadian oil producing companies, 20%.

Royalties from British and Foreign oil producing companies, 10%.

Annuities.

Amounts received from any annuities are taxable in full with the exception of the income from Dominion or Provincial Government annuities (and certain similar annuities) as follows:

(1) If purchased before May 26th, 1932, the income from such annuities is exempt to the extent of $5,000;

(2) If purchased during the period May 26th, 1932, to June 24th, 1940, the income from such annuities is exempt to the extent of $1,200.

If both you and your wife receive annuity payments exempt as above, you cannot each claim an exemption of $5,000 or $1,200. The total exemptions claimed by both of you must not be more than $5,000 or $1,200 as the case may be.

Income from Estates and Trusts.

If you are a beneficiary of an estate or a trust fund, all income or annuity payments (but not principal sums) to which you became entitled during 1942 must be shown as income. This includes amounts paid to you in cash, and amounts held by the executor or trustee for your benefit or credit. You should get a statement of the taxable amount from the executor or trustee.

Pensions.

Pensions granted by Canada to members of the fighting forces, or to their dependent relatives, for disability or death while on active service during the present conflict or the last war, are exempt from Income Tax. Most other pensions are taxable. If you are in any doubt, you should ask the person or firm from whom it is received or your District Inspector of Income Tax.

Item 10F(1)—Donations

Donations.

You may claim the amount, not exceeding 10 per cent of your income, actually paid during the year to a recognized Canadian charitable organization if you submit original receipts with your Return. Charitable organizations include churches but not charity to particular individuals.

Undertaking to pay a donation over a period of years does not entitle you to the deduction in the year in which you undertake to pay but you get the deductions only in the years when the monies are actually paid.

Item 10F(2)—Medical Expenses

Medical Expenses.

If the total amount you have paid (on account of yourself, your wife or your dependents) to qualified medical practitioners, dentists or nurses, registered under any Dominion or provincial legislation, or to public or licensed private hospitals, or to one full time attendant for a patient confined to bed or a wheel chair or blind during the whole of the year, exceeded 5 per cent of your income for the year, you may claim the excess as a deduction from income. However, the total allowance is limited to $400 for a single person without dependents and to $600 for a married person without dependents, with an increase of $100 for each dependent not exceeding four, so that in no case may the total allowance exceed $1,000. To qualify for the allowance, any payment must be made in the taxation year in respect of a debt incurred within one year prior to the date of payment and the total payments made during the year must be substantiated by receipts filed with the Return.

Item 11—Savings Portion Included In Tax

Savings Portion (Item 11A).

The Total Tax includes a Compulsory Savings Portion which may amount to as much as 50% of the Total Tax.

Reduced by Voluntary Savings (Item 11B).

If you claim a deduction from your tax for personal Voluntary Savings, this same amount goes to reduce the amount of the Savings Portion to be refunded to you after the war. You cannot get the benefit of the Savings Portion both as a reduction of the Total Tax and as a refund after the war.

Refundable Portion (Item 11C).

The Savings Portion, less the Voluntary Savings allowed as an offset, is the Refundable Portion. This is the amount that will be paid back to you after the war with simple interest at 2 per cent per annum. Provision is made for payment to his legal representative at an earlier date if a taxpayer dies. If you are over 65 years of age and subtracted the full amount of the Savings Portion from the Total Tax (see below), no portion is refundable.

Receipt for Refundable Portion.

This Refundable Portion of the tax will be shown on a Certificate which will form part of the Notice of Assessment (see page 12) which will be sent to you after your Return has been checked by the Income Tax Division. This Certificate (subject to the accuracy of your Return and payment in full of your tax liability) will be just as binding an obligation of the Dominion Government as a Victory Bond or a War Savings Certificate. It is a statutory obligation of the Government and will be paid accordingly.

One-half Voluntary Savings Deductible for 1942.

It will be noted that Item 11B instructs you to deduct only **one-half** of your Voluntary Savings from the Savings Portion of your tax. This is because the Total Tax and Savings Portion shown in the Tables give effect to the cancellation of 50% of the 1942 tax liability, and you are being required to pay only one-half of the 1942 tax.

Item 12B—Savings Allowable as Deduction

Limitation.

You will enter an amount for this item, **if, and only if,** you have made any Voluntary Savings.

Then you enter whichever is the **lesser** of—

(1) one-half of the total of these (i.e. the amount you have shown in Item 11B), or

(2) the Savings Portion of the tax (i.e. the amount you have shown in Item 11A).

Only a part of the Total Tax is Savings Portion. The other part, which is **not** Savings Portion, may not be reduced by any excess Voluntary Savings.

Persons over 65.

An exception is a person, with an income in 1942 of less than $5,000, who has passed his 65th birthday prior to 31st December, 1942. Such a person is not required to pay the Savings Portion of the 1942 tax and accordingly may subtract the full amount shown in Item 11A even if he has made no payments on account of allowable Voluntary Savings.

Item 12D—1942 Tax Deductions and Instalment Payments

Tax Deducted at the Source.

In the first line of this item you enter the total of the following:

(1) any deductions made from your salary or wages, dividends, interest, etc., for National Defence Tax during the eight months, January to August, 1942; and

(2) any deductions made from your salary or wages, dividends, interest, etc., for Income Tax during the four months, September to December, 1942.

Tax Deducted at the Source. From Salary or Wages.

The total of the above deductions which were made from your salary or wages will appear on the "T. 4 slip" (see page 4) which your employer will give you at the end of May.

From Dividends and Interest.

If you own dividend-paying shares, you may have also received a "T. 5 slip" with a 1943 dividend showing the total of the deductions which were made in 1942 from such dividends. The deduction from dividends for National Defence Tax was 5% and for Income Tax was 7%. Deductions at the same rates were made from certain registered (**not** coupon) interest.

Instalment Payments.

If salary or wages made up less than three-quarters of his income, a taxpayer was required to make instalment payments on account of his estimated 1942 tax, on or before 15th October, 1942, and on or before 15th January, 1943. If you made such instalment payments (or any other direct payments on account of the 1942 tax to the District Inspector), you should enter the total amount so paid in the second line of Item 12D.

Item 14—Status

Status.

It will be noted that Item 14 is divided into three parts. Part I relates to persons who, for Income Tax purposes, are regarded as "Single"; Part II relates to persons who are regarded as "Married"; and Part III relates to unmarried persons who may claim a status "Equivalent to Married."

It is believed that only the persons who come within Part III may require a further explanation.

Status Equivalent to Married.

You may claim status "Equivalent to Married" if you were a widow or widower supporting a dependent child; or if you supported a dependent relative in a "Self-Contained Domestic Establishment" (as defined below); or if you were a minister or clergyman in charge of a diocese, congregation or parish and employed a full-time housekeeper or servant in a "Self-Contained Domestic Establishment" (as defined below).

"Self-Contained Domestic Establishment."

To be regarded as a "Self-Contained Domestic Establishment" your residence must be your real home where you generally sleep and have your meals and it must contain at least two bedrooms. The dependent relative supported therein must be connected with you by blood relationship, marriage or adoption. **Blood relationship** extends to parents, grandparents, great grandparents, children, grandchildren, great grandchildren, brothers, sisters, uncles, aunts, nephews and nieces but no further. **Marriage** extends to the parents, grandparents, great grandparents, brothers and sisters of the taxpayer's spouse and the taxpayer's stepchildren, but no further. **Adoption** extends only to children legally adopted.

Status not Apportioned.

A taxpayer is entitled to claim "Married" status if such taxpayer was a married person during any part of the year. There is no apportionment in the case of a change of status at any time in the year. For instance, a man who married in December 1942 may claim "Married" status for 1942 (providing, of course, that his wife's income, other than from an employer, for the year 1942 did not exceed $660). Similarly, a man whose wife died in January 1942 can nevertheless claim "Married" status for 1942.

The Tables

Directions For Use.

The directions telling you which column to use to find your Total Tax and Savings Portion appear directly under each of the three parts of Item 14. Be sure you refer to the proper income line corresponding with the amount you have shown in **Item 10G.** Also, if the amount you have shown in Item 10G ends in an even $10, be sure to refer to the income line ending with that amount and not to the income line beginning with that amount.

Dependents.

For purposes of the Tables, count as dependents only those described in Item 8 on page 1, namely—

(a) wholly dependent sons, daughters, grandchildren, brothers, sisters, if under 18, or between 18 and 21 and attending school, or over 21 and incapable of self-support; or

(b) your own wholly dependent parents or grandparents, incapable of self-support;

unless you come under part III(b) of Item 14 when, for purposes of the Tables, you also count the ONE dependent entered thereunder, who may be a wholly dependent relative connected with you by blood relationship, marriage or adoption.

For further information regarding dependents see page 2.

Calculation of Tables.

The amounts shown in the Tables make allowance for tax credits for married persons and for dependents. They also give effect to the cancellation of 50% of the 1942 tax liability.

In each case, the amounts represent the approximate Total Tax and Savings Portion, calculated in accordance with the schedule Income Tax rates, on the middle income figure in a $10 bracket. For example, the amounts shown in Column F for incomes over $1880 but not over $1890 (i.e. $136 and $68) represent the approximate schedule Total Tax and Savings Portion on an income of $1885, for a married person with one dependent.

Example.

TOTAL TAX:

Normal Tax—7% of $1885			$131.95	
Less tax credit for one dependent			28.00	$103.95
Graduated Tax				
No tax on first	$ 660		—	
30% on next	500		$150.00	
33% on next	500		165.00	
37% on next	225		83.25	
	$1885		$398.25	
Less tax credit for wife		$150.00		
Less tax credit for one dependent		80.00	$230.00	$168.25
Total Tax before 50% adjustment				$272.20
Less: 50% adjustment				136.10
Calculated Total Tax				$136.10
Total Tax per Tables				$136.00

SAVINGS PORTION:

Calculated Savings Portion: One-half of $136.10	$ 68.05
Savings Portion per Tables	$ 68.00

Tax Not to Reduce Basic Income.

In no case, however, was a taxpayer required to pay a 1942 net tax (i.e. after credit for dependents) that reduced his income below $660 (if single) or $1200 (if married). In the two small parts of the Tables where this applies, no amounts are shown, but the affected areas are blocked off and the taxpayer is directed to a note at the foot of page 2 of the form where he is required to make a very simple calculation to find his Total Tax and Savings Portion. In every other case, the exact amounts set out in the Tables must be used.

Foreign Tax Deductions

Foreign Tax Deductions.

If you are in receipt of dividends, interest, etc., from a foreign country you will probably find that Income Tax of the foreign country has been deducted from them. However, you must show as income in the appropriate part of Item 10 of the form the total amount (in Canadian funds) you would have received if the foreign country had not made any deduction. Then, if the income comes from a part of the British Empire or the United States, you are entitled to a deduction from your Canadian tax.

When you use Form T. 1 Special 1942 you claim this deduction by completing the block shown on page 2 of the form which has the heading—"For use only when Income Tax has been paid abroad."

It will be noted that, under this heading on the form, you are instructed to deduct only one-half of the foreign tax you have paid. This does not mean that you are not receiving full credit for the foreign tax. The foreign tax deduction is a component part of the calculation of your 1942 tax liability. Your 1942 tax liability is reduced by one-half and, therefore, each of the component parts, including the foreign tax deduction, must be reduced by one-half. To do otherwise would be to offset the full amount of the foreign tax on a part of your income against only one-half the Canadian tax on that income.

PART 4.

The 1943 Tax Deductions

Deductions are Mandatory.

Your employer is required by law to deduct each pay day the amount, shown by a Table of Tax Deductions, which is applicable to your **current** rate of pay, after taking account of your marital status, dependents and the voluntary savings you have shown on Form T.D. 1 (see page 11) and remit the amount to the Inspector of Income Tax within one week of the pay day.

With the introduction of the pay-as-you-earn plan for 1943, all deductions made by your employer from your salary or wages during the calendar year 1943 apply against your 1943 Income Tax liability.

Tables of Tax Deductions.

For payroll periods commencing before March 31st, 1943, your employer was required to deduct the amounts shown in the Table of Tax Deductions which became effective in September, 1942. For payroll periods which commenced after 31st March, 1943, your employer is required to use the Revised Table of Tax Deductions.

Why Revised Table Higher.

There has been no increase in the rates of tax but the deductions shown in the Revised Table are higher for two reasons. First, because the previous Table gave allowance for the National Defence Tax deducted during the first 8 months of 1942. There can be no such credit in 1943 since no National Defence Tax was deducted after August, 1942. Second, because the previous Table was designed to collect about 90% of the tax, whereas the Revised Table is designed to collect about 95% of the tax.

The margin of 5% has been left to allow for donations, medical expenses, etc., so that, in most cases, over-deduction will be avoided without, however, leaving large balances to be paid with the Income Tax Return next year.

Balance Payable with Return.

Even the increased deductions, however, will probably be insufficient to cover the full amount of the 1943 tax and, in most cases, a balance will have to be paid with the Income Tax Return to be filed on or before 30th April, 1944. This is an important fact to bear in mind because it means that the more paid by way of deductions, the less you will have left to pay in a lump sum next April. The deductions are not the tax but merely a method of collection. They are really a service your employer is rendering to both you and the Income Tax Division to enable most of your Income Tax liability to be paid in a systematic way as you earn your income. Your actual 1943 tax liability can be determined definitely only when you complete your 1943 Return on Form T.1 Special or Form T. 1 General next April.

Do You Lose Money By Working Overtime?

Some employees believe that they lose money by working overtime or earning higher wages because the tax deductions often increase out of proportion to the increase in their earnings. If you earn more money, it naturally follows that you will pay more tax but the actual increase in tax will only be at the rates applicable to your full year's income. Your actual tax will certainly never increase by a larger amount than the extra money you earn.

The following table shows that the increase in the tax rates is gradual and that a substantial portion of any increase in earnings is either retained by an employee in cash or represents the Refundable Portion which will be paid back after the war.

For purposes of illustration, the position of married men with no dependents has been taken. Tables covering single men, or married men with dependents, would show much the same picture. For simplicity, cents have been omitted.

Yearly Earnings Without Overtime	If Employee Earns Overtime in Amount of— $100	$200	$300	$400	$500
	His Actual Share, Including Refundable Portion of Tax, Will Be—				
$1,600	$ 79	$157	$232	$298	$364
1,700	78	153	219	285	351
1,800	75	141	207	273	339
1,900	66	132	198	264	330
2,000	66	132	198	264	330
2,100	66	132	198	264	330
2,200	66	132	198	264	329
2,300	66	132	198	263	325
2,400	66	132	197	259	321
2,500	66	131	193	255	317
2,600	65	127	189	251	313
2,700	62	124	186	248	310

The table shows, for instance, that if a married man whose earnings without overtime are $150 per month (i.e., $1,800 per year) earns $100 overtime during 1943, he will benefit in increased cash and savings by $75. If he works sufficient overtime to earn an additional $200, he will benefit by $141, and so on. Even when the normal earnings are greater so that the tax rates are higher, employees still get a substantial share of any increased earnings. For example, married men normally earning around $2,700 per year will benefit by $62 in cash or savings for every $100 additional they earn in 1943.

Your tax deductions increase if you move into a new bracket on the Tables. In a few cases this may mean that the deductions actually increase by more than the increase in your earnings. At first this may seem to be unfair. But if you examine the facts you will find that in practically every case of this kind, the net effect is merely that you are paying a little more of your tax in advance so that you will have a smaller balance to pay next April. Even in the small number of cases where the pays fluctuate so widely that there has been over-deduction during the year, you do not lose any money. The excess deductions will be credited to your account or, if you prefer, they will be refunded to you after your Return has been checked. The important thing to remember is that the deductions are only a method of collecting **part** of your tax and that your **actual** tax is determined solely by your earnings over the whole year.

Form T.D.1.

Unless you are a single person not making allowable personal Voluntary Savings (see page 3), you should complete and file **Form T. D. 1** with your employer. If Form T.D. 1 is not filed, your employer must deduct the amounts provided by the Revised Table of Tax Deductions as for a single person without dependents and without Voluntary Savings. If you work for more than one employer during the year you must file Form T.D. 1 with each employer. If you are married during the year, or the number of your dependents increases or decreases, or any other similar changes take place, you are required to file immediately a revised form with your employer.

Form T-D.1.

There are severe penalties for false statements on Form T.D. 1.

It is probable that your employer has copies of this form available but, if not, they can be obtained from your District Inspector of Income Tax or at your post office. There is no point in a person who is single without dependents and without allowable Voluntary Savings, completing Form T.D. 1.

PART 5.

How Are The Returns Checked?

Administration.

The administration of Canadian Income Tax is in the hands of the Income Tax Division of the Department of National Revenue. The Dominion of Canada is divided into nineteen districts, each of which is in charge of an Inspector who administers and collects the tax from the taxpayers residing in his district.

Information Returns.

Annual returns are received from all employers covering wage and salary payments, from corporations of their dividends and bonuses, from life insurance companies of annuity and other annual payments, and from various other sources of bond interest, etc. This and other information enables the Department to check each individual taxpayer's Return.

Notice of Assessment

When the necessary checking has been done a Notice of Assessment is sent to the taxpayer which shows the amount, if any, remaining to be paid either by reason of an error in estimating the tax or because the full amount of the estimated tax has not been paid. The Notice of Assessment will also contain a Certificate for the Refundable Portion which will be paid back to you after the war.

PART 6.

What Should a Taxpayer Do If He Believes He Has Been Incorrectly Assessed?

Appeals.

If the income, as shown on the Notice of Assessment which you will receive, is not in accordance with your Return, the reason for the change may be obtained from the District Inspector of Income Tax. If you intend to protest an assessment by appealing to the Minister, you or your solicitor must file a Notice of Appeal in the form prescribed, by registered post within one month after the date on which the Notice of Assessment was mailed.