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before 42-43 change

YOUR 1942 INCOME TAX

Who Pays?

How Much?

When?

Where?

printed: summer of 1942 *How?*

A Simplified Explanation of the 1942 Income Tax for the *Individual* Taxpayer With a View to Answering Questions Most Frequently Raised

[CANADA]

ISSUED BY

DEPARTMENT OF NATIONAL REVENUE
INCOME TAX DIVISION

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FOREWORD

—by the Minister of National Revenue

THE Canadian taxpayers are being called upon to make greater contributions than ever before. They will strive to fulfill the additional responsibilities in the full knowledge that their contributions are in reality small when compared with the sacrifices of our fighting men in this our battle for freedom.

In order to spread the increased burden more fairly, it has been found necessary to introduce some new and unfamiliar features into the law. Many persons consider income tax as something beyond normal comprehension, and believe that the preparation of any kind of an income tax return is a task requiring the assistance of persons with special knowledge and skill. The changes made this year may tend to accentuate this opinion, which it is felt is not warranted.

Every taxpayer, no matter how small his tax, should understand how his assessment is compiled and it will require some study. This booklet has been prepared so that each taxpayer may make this study and be able to compile his own income tax return.

It would, of course, be impossible to cover 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

"Young man, when I pay taxes I buy civilization"—*Oliver Wendell Holmes.*

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CONTENTS

1. WHAT ARE THE MAIN FEATURES OF THE 1942 INCOME TAX?

This opening section summarizes the principal matters of interest but the detail in the subsequent sections should be carefully read to obtain a proper understanding of the tax and the allowances which may be claimed.

This year, in addition to the usual allowances for charitable donations and payments into approved employees' superannuation and pension funds, a portion of large medical expenses may be deducted from total income to determine the *taxable income.*

Two distinct sets of tax rates are now applied to the *taxable income*—(1) Normal Tax Rates, and (2) Graduated Tax Rates. The National Defence Tax has been repealed.

The Normal Tax is determined by applying the appropriate Normal Tax rate to the taxable income.

The Graduated Tax is determined by applying a graduated scale of rates, ranging from 30 per cent to 85 per cent, to the taxable income in excess of $660.

Married persons, and persons entitled to claim equivalent status, may deduct an amount of $150 from the Graduated Tax, but the former exemptions of $750 for single persons and of $1,500 for married persons no longer apply.

For each dependent, an amount of $28 may be deducted from the Normal Tax, and up to $80 from the Graduated Tax. These tax credits replace the former allowances against income of $400 for each dependent.

In addition to the normal and graduated rates, surtax of 4 per cent applies to investment income on the excess over $1,500.

Part of the total 1942 tax represents compulsory savings to be refunded with interest after the war.

An allowance may be claimed against the refundable portion of the tax for certain types of personal savings (see page 15). Therefore, the full total tax is payable to the Government only by taxpayers who are not obligated to make payments for these types of savings. This does not mean that a taxpayer who must pay the full amount is discriminated against; he will be compensated by getting back a larger refund after the war.

2. WHO MUST PAY?

A single person (see page 16) whose income for the year is more than $660, is required to pay Income Tax. **Single Persons.**

A married person, or an unmarried person entitled to claim equivalent status (see page 14) is required to pay a tax if his income for the year exceeds $1,200. (See note on page 23.) **Married Persons.**

Deductions at the source are to be made from persons who are receiving salaries or wages *at a rate* in excess of $660 per annum if single, or $1,200 if married or entitled to claim equivalent status (see page 14).

3. WHAT RETURNS ARE REQUIRED?

Form T.D. 1 (Employees). Unless you are a single person (see page 16) not making allowable personal savings (see page 15), 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 Table of Tax Deductions (see page 7) for a single person without dependents and without savings. If you work for more than one employer during the year you will have to 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.

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 personal savings, completing Form T.D. 1.

Return of Income. The responsibility for procuring the necessary forms and filing Returns rests upon the taxpayer, and if you are to avoid a penalty of 5 per cent of the tax payable you must file your 1942 Income Tax Return properly completed on or before the due date. This is so even though a portion of your tax has been deducted at the source. 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. Care should be taken in filling out the form as there are penalties for filing an incomplete or incorrect Return.

Filing Date—Wages and Salary. If three-quarters or more of your total income comes from salary or wages, you must file your 1942 Income Tax Return on or before 30th September 1943. You should obtain a statement of your 1942 earnings, and tax deductions on account of such earnings, from your employer to ensure that you make a correct return of your income.

Filing Date—Income other than Wages or Salary. If less than three-quarters of your total income comes from salary or wages, you must file your 1942 Income Tax Return on or before 30th April 1943.

Form T. 1 Special. Salaried persons or wage earners having not over $5,000 income, including not over $100 from investments, use Form T.1—Special.

Form T. 1 Other individuals use Form T.1. These forms will be available at the office of any Inspector of Income Tax and at post offices well in advance of the due dates.

4. WHEN AND HOW IS THE TAX COLLECTED?

Salaries and Wages. Deductions on account of the 1942 tax will be made by your employer from your salary or wages, commencing with the first established payroll period beginning in September, 1942, and ending with the last payroll period in August, 1943. Salary and wages include bonuses.

Deductions at Source Mandatory. Your employer must deduct the amount as shown by the Table of Tax Deductions, which deduction is based upon your *current* rate of pay, taking account of the status, dependents and personal savings you have shown on Form TD-1 (see above) and remit the same to the Inspector of Income Tax within one week of the pay day.

Table of Tax Deduction. The Table of Tax Deductions is designed to collect about 90 per cent of your total 1942 tax liability after allowing for the National Defence Tax deducted during the first 8 months of 1942. The margin of 10 per cent has been left to cover donations, medical expenses, etc. (see page 11) so that, in most cases, over-deduction will be avoided without, however, leaving large balances to be paid with the Income Tax Return.

Balance Payable with Return. Thus the deductions at the source from employees will probably be insufficient to cover the full amount of the 1942 tax and a balance of about 10 per cent may have to be paid with the Income Tax Return on or before 30th September, 1943. Interest at the rate of 8 per cent per annum will be charged on any balance not paid with the Return.

Refund of Amount Over-Deducted. On the other hand there will be cases where too much is deducted—for instance, if you earn substantially more during the deduction period than you did during the year 1942. This can be determined definitely only when you complete your Income Tax Return on Form T.1 or Form T.1—Special showing the income you earned during the year 1942. If this shows that you are entitled to a refund, the amount over-deducted may be recovered in due course if you make application within 12 months from 31st December, 1943.

Salary and Wage Earners Having other Income. If your salary or wages are less than three-quarters of your total income, while your employer will only make the deductions applicable to such salary or wages, you must also pay the tax on your other income by the compulsory instalment method (see next paragraph).

Compulsory Instalments. Persons (such as business or professional men, investors and persons on commission) whose incomes are not subject to deduction at the source, must pay their 1942 tax in quarterly instalments on or before 15th October, 1942, and on or before 15th January, 15th April and 15th July of 1943.

Remittance Form T. 7-B Individuals. For your convenience, the Income Tax Division has prepared a special remittance form to use when sending in your instalment payments. This self-explanatory form is known as "Form T.7-B—Individuals", and may be procured from your District Inspector of Income Tax or at your post office.

Interest and Dividends—Deductions at Source. If you are in receipt of interest on a *fully registered* bond, debenture or similar obligation, or dividends, you will find that tax has been deducted at the source, namely—5 per cent (National Defence Tax) during January to August, 1942, and 7 per cent during September to December, 1942. You must include the gross amount of such interest or dividends as income but treat the amounts deducted at source as payments on account of your 1942 tax.

Payments. Payments of instalments (or balances due to insufficient deductions at the source) may be made by bank draft, money order, postal note or cheque with revenue stamps affixed made payable to the Receiver General of Canada. These should be mailed to your District Inspector of Income Tax.

Failure to pay. If you do not pay your income tax on time you will be charged interest. If you do not pay any balance due within one month from the date of an Assessment Notice additional interest will be charged.

5. WHAT WILL HAPPEN TO THE 1942 NATIONAL DEFENCE TAX DEDUCTIONS?

The National Defence Tax is repealed as of 31st August, 1942, and any deductions of this tax made at the source from your salary or wages, or dividends, etc., during 1st January to 31st August, 1942, will be applied as a payment on account of your 1942 income tax. The amounts shown in the Table of Tax Deductions (see page 7) have been reduced on this account.

6. FOR TAX PURPOSES, WHAT IS REGARDED AS "INCOME"?

Items Included.

"Income" includes earnings resulting from a taxpayer's occupation such as wages, salaries, commissions, bonuses, pensions, superannuation, professional fees, directors' fees and business profits; the return from investments such as interest, dividends, rents, royalties and annuities; and all other income such as income from an estate.

Items Excluded.

It does not include capital gains such as profits from the sale of real estate, furniture, automobiles, stocks or bonds (providing that dealing in these is not your business); casual receipts such as gifts received other than from your employer, compensation for sickness or accident or for damages to yourself or your property.

The more usual types of income receipts are dealt with in some detail in the following paragraphs:—

Salaries, 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 most other taxpayers who must pay cash for these things.

Value of Board and Lodging.

When placing a reasonable value on board and lodging, regard should be taken of the following indicative values supplied in part by the Department of Labour, Ottawa, and adjusted by the Income Tax Division:—

Employees in logging, construction camps and other like places of employment..	\$ .60 to \$ .80 per day.
Employees on farms (male and female)..	\$13.00 to \$17.00 per month.
Janitors (including lodging for self and family, light, heat, etc., but not board)	\$20.00 to \$30.00 per month.
Domestic servants	\$ 3.50 to \$ 7.00 per week.

In September 1943 your employer should let you know the total amount his records show as having been paid to you during the calendar year 1942, either in cash or by way of outlays on your behalf, and the tax deductions he has made during January 1942 to August 1943, so that the amounts reported by you in your 1942 Return will agree with the amounts he will report.

Dependents' Allowance.

Dependents of members of the Canadian Active Service Forces are not taxable on any allowance they receive; but a wife who, in

addition to separation and dependent's allowance, also has earnings or other income of her own totalling more than \$660, must pay tax as a single person on her own income.

War 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 any income tax.

Other Pensions.

Other pensions are treated as income. If you are in doubt as to whether yours is taxable or not you should ask the person or firm from whom it is received or your District Inspector of Income Tax.

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 which is 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.

Annuities.

Amounts received from any annuities purchased after June 24, 1940, are taxable in full. The income from Dominion or Provincial Government annuities and certain similar annuities purchased during the period May 26, 1932, to June 24, 1940, is exempt to the extent of \$1,200; or, if purchased before May 26, 1932, is exempt to the extent of \$5,000. If both you and your wife hold annuity contracts exempt as above, the total exemptions claimed by both of you must not be more than \$1,200, or \$5,000 as the case may be.

If the purchaser is living, the receipts from an annuity must be shown as income by that person, even though they may actually be payable to a member of his family, unless Gift Tax has been paid thereon.

Income from Estates and Trusts.

If you are a beneficiary of an estate or a trust fund all income or annuity payments received therefrom must be regarded as income whether paid to you in cash or accrued for your benefit, but principal legacies are not taxable. You should procure a statement of the taxable amount from the executor or trustee.

Interest.

Any interest received from a bank account or from bonds, mortgages, notes, etc., is taxable with the exception of the interest you receive on the redemption of War Savings Certificates. Interest from bank deposits should be shown in your Return net after deducting bank service charges, if any.

Dividends and Royalties.

You may deduct collection charges from dividends, or interest on margin accounts or on money borrowed to buy the shares, but you are not permitted to deduct brokerage charges on purchases or sales. Moneys which you receive by way of dividends or royalties are taxable in full, with the exception of those paid by mining companies and oil producing companies in respect of which an allowance

Depletion Allowances.

is made for depletion. In these cases the amount to be shown as income in your tax return is the gross amount received less a deduction of the following percentages of the gross amount—

Dividends from Canadian mining and oil producing companies, 20 per cent.
Dividends from British and Foreign mining companies, 20 per cent.
Dividends from British and Foreign oil producing companies, 10 per cent.
Royalties from Canadian oil producing companies, 25 per cent.
Royalties from British and Foreign oil producing companies, 10 per cent.

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 your Canadian Return 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*. This deduction is the lesser of—(*a*) the British or United States tax deducted, or (*b*) the Canadian tax you are actually paying on the British or United States income.

Example

Say your income includes a $50 U.S. ($55 Can.) dividend from which a tax of $7.50 U.S. ($8.25 Can.) has been deducted (i.e., you actually received only $42.50 U.S. or $46.75 Can.).

And your taxable income (including $55 for the U.S. dividend) is..		$2,000 00
And your Canadian tax works out to..................................		$ 200 00
You may deduct the ***lesser*** of—		
(*a*) the U.S. tax, which was..................	$8.25 (Can.)	
or		
(*b*) $\frac{\$55 \text{ (U.S. Div.)}}{\$2{,}000 \text{ (Income)}}$ of $200 (Can. tax) =	$5.50 (Can.)	
Therefore you are allowed..		5.50
So that you pay a net tax of..................................		$ 194.50

7. WHAT ALLOWANCES MAY BE DEDUCTED FROM *INCOME?*

You may not have to pay tax on the full amount of your *income* (see page 8) as allowances are made for payments to approved superannuation or pension funds, charitable donations and a portion of unusually large medical expenses. These allowances, which you deduct from your total income to find your "taxable income", are described in the following paragraphs.

"Taxable Income".

It should be particularly noted that these are *all* the deductions which may be made from income other than that derived from the operation of a business. Deductions are not allowed for any personal and living expenses such as unemployment insurance contributions; interest on personal debts; the expenses of travelling from your home to your office or factory; the expenses of moving to a new job in a different town or city, and any additional living expenses you may incur there before your family arrive.

Personal and Living Expenses.

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. If your contributions are allowable, your employer will regard your gross salary or wage less these contributions as your income for purposes of the Table of Tax Deductions (see page 7). It should be particularly noted that

payments of this kind are also regarded as personal savings and may therefore be deducted also from the savings portion of your tax without the limitation of $300 above referred to (see page 15).

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.

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 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 must be substantiated by receipts filed with the Return.

8. WHAT ALLOWANCES MAY BE DEDUCTED FROM THE *TAX?*

Allowances, as hereinafter indicated, may be deducted from the *tax* if you are married or are entitled to claim equivalent status; if you support dependents; if you make contributions to prospecting; or if you make personal savings. These various tax credits are described in the following paragraphs.

Married Man.

You may claim a deduction of $150 from the Graduated Tax if during 1942 you were married and your wife was a resident of Canada, the British Empire or the United States; or was a subject or citizen of an allied country prevented by the war or legally debarred, from entry into Canada; and providing she did not have income, other than from an employer, of over $660. If she did have such income of over $660, then both you and your wife must file separate returns as if you were single persons and neither may claim the deduction of $150.

Wife with Separate Income.

Married Woman.

A wife may claim the deduction of $150 if her husband had income during 1942 of not more than $660. In all other circumstances, a married woman is taxed as if she were a single person. It should be particularly noted, however, that in no case will any amount a married woman *earns* by reason of being employed affect her husband's right to be regarded as a married person for income tax purposes; it is only when she has other income over $660 that he reverts to the status of a single person.

HOW TO CALCULATE YOUR 1942 INCOME TAX

The page number shown beside each item indicates the place in the booklet where you will find an explanation of any item you do not fully understand. Make full use of these references so that you may be sure you have calculated your tax correctly.

A.	
A. Your Income (page 8)	$
LESS:	
Pension or Superannuation (page 10) $	
Charitable Donations (page 11)	
Unusual Medical Expenses (page 11)	
	$
YOUR TAXABLE INCOME	$ 1748.00

1748
660
1088

B. Your Normal Tax

Tax—7%, 8% or 9% of your taxable income (page 16)	$ 122.36
LESS:	
$28 for each dependent (page 14)	
Your Normal Tax (Note A below)	$ 122.36

C. Your Graduated Tax

Tax (rates on page 17)	$ 347.56
LESS:	
Married, or equivalent status —$150 (page 11) $	
Up to $80 for each dependent (page 14)	
	$ 150.00
Your Graduated Tax (Note A below)	$ 197.56

315.
32.56
347.56

1748
7
122.36

160.00
32

D. Your Tax Payable

Your Normal Tax (Block B)	$ 122.36
Your Graduated Tax (Block C) (Note B below)	197.56
Surtax on Investment Income (page 17)	
Your Total Tax	$ 320.92
LESS:	
(1) Personal Savings (page 15) $	
(2) National Defence Tax deducted Jan.-Aug. 1942 (page 8)	
	$ 160.46
Amount Payable (by deductions—page 6; or by instalments—page 7)	$ 160.46

174

2 | 160.46
80.23

NOTE A: The total tax shall in no case reduce the income below $660 for a single person, or $1,200 for a married person (or person entitled to equivalent status)—see example on page 17.

NOTE B: If your allowances for married or equivalent status and dependents are greater than the tax calculated under the Graduated rates, the excess may not be applied in reduction of the amount of tax payable under the Normal Tax (see example on page 23).

E. The Savings Portion of Your Tax

Savings Portion of Tax (page 17)	$ nil
LESS: Personal Savings deducted from Total Tax (Item (1) of Block D)	
Savings included in your Tax Payable (refundable with 2% interest after the war)	$ nil

Status Equivalent to Married.

You may also claim the tax deduction of $150 even though you were not married if you were a widow or widower supporting a *dependent child* (see below); 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).

Allowance not Apportioned.

This tax deduction is not to be apportioned in case of a change of status during the year. For instance, a man married any time during the year 1942 is entitled to deduct the full $150 even if he was married for only one day during the year 1942 (providing, of course, that his wife's income, other than from an employer, for the year 1942 did not exceed $660).

"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 great grandparents and great grandchildren, brothers or sisters, uncles or aunts, nephews or nieces but no further. Marriage extends to wife's great grandparents, and to stepchildren and to brothers-in-law and sisters-in-law but no further. Adoption extends only to children legally adopted.

Dependent Children.

You may claim a deduction of $28 from your Normal Tax, and of $80 from your Graduated Tax, for each of your dependent children or grandchildren (including legally adopted children or stepchildren) who were under 18 years of age any time during 1942; or, if they had passed their 18th birthday, were dependent on account of mental or physical infirmity. You may also make these deductions if you can produce satisfactory proof that a child who had passed his 18th birthday, but was under 21 any time during 1942, 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.

Children from the U.K.

The deductions of $28 and $80 may also be claimed, just as for your own children, in respect of children brought from the United Kingdom under a Government co-operative scheme.

Dependent Relatives.

If during the year you have kept a *dependent relative* (as defined below) you may claim a deduction of $28 from your Normal Tax and a deduction of 20 per cent of the amount of your outlay, up to $400 (the deduction not to exceed $80), from your Graduated Tax. A *dependent relative* is restricted to

(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); and

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

No allowances will be made for dependent parents-in-law, grandparents-in-law, brothers-in-law, sisters-in-law, uncles, aunts, nephews, nieces, etc.

Dependents of Persons Claiming Status Equivalent to Married.

If you were unmarried but claim status equivalent to a married person (see page 14), you cannot claim further deductions of $28 and $80, respectively, for the dependent qualifying you for the exemptions given married persons but may claim dependent deductions only in respect of second or third dependents and so on.

Non-resident Dependents.

To entitle a taxpayer to the deductions described above, 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.

Dependent with other Income.

In no case will an allowance be given for any dependent who has income of more than $400 during the year.

Contributions to Prospecting.

Under certain circumstances, 40 per cent of amounts which you contribute to recognized syndicates, prospecting in Canada for base metals and strategic minerals, may be claimed as deductions from your tax.

Deductions from Savings Portion.

You may claim a deduction from the total tax, *up to the amount of the savings portion* (see page 17), for payments made during 1942 for certain types of personal savings. In other words, some of your *personal* savings may be used as an offset against the *compulsory* savings included in the 1942 tax. The types of personal savings which may be deducted fall into four main categories, namely—(1) payments into superannuation, retirement or pension funds; (2) premiums on life insurance policies; (3) payments on annuity or certain savings contracts; and (4) 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 any dividends, policy loans or cash values you received in 1942. Such a policy may be on your own life or that of your wife or a *dependent* (see page 14).

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 until you reach at least age 65 during a term of not less than thirty years.

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 of such a nature that you cannot postpone payments without incurring a *substantial* loss. For instance, you cannot claim for Dominion Government or similar annuities because you can resume payments at any time on these without substantial loss.

Annuity contracts may be on your own life or that of a wife or a *dependent* (see page 14).

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. It must be only in respect of *one* residential property, registered in your name, whether occupied by you or not, and may cover a duplex or apartment house. Payments made by you in respect of a mortgage or agreement of sale in the name of your wife (or husband) will not be allowed. Where property is owned jointly, payments will be allowed as a deduction to the person making the payment. Payments as guarantors, sureties, etc., cannot be deducted.

Proof of Payment Required.

In every case (other than payments into a superannuation or pension fund or plan deducted from your pay by your employer) you must file receipts with your Return of Income (see page 6). 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.

Persons over 65.

Any person who has passed his 65th birthday prior to 1st January 1942, with an income in 1942 of less than $5,000, is not required to pay the *savings portion* of the 1942 tax (see page 17).

9. WHAT ARE THE 1942 TAX RATES? HOW ARE THEY APPLIED?

Normal Tax.

In the case of the Normal Tax there are three rates of tax only, namely, 7 per cent, 8 per cent or 9 per cent. These rates are applied to *taxable income* (see page 10) from the first to the last dollar, providing the taxpayer's taxable income exceeds $660 or $1200, whichever standard is applicable to his case. The basic amounts of $660 and $1,200 are not deductions from income for purposes of determining the taxable income but are merely minimum standards of taxable income which must be exceeded in order to render the taxpayer liable to the tax. If the taxable income of the individual exceeds the standard for his particular status he becomes taxable.

The Normal Tax rate, applied on the total taxable income, is:—

Single person (as defined below)—
- 7% when the total taxable income exceeds $ 660 and does not exceed $1,800;
- 8% when the total taxable income exceeds $1,800 and does not exceed $3,000;
- 9% when the total taxable income exceeds $3,000.

Married person (or unmarried person entitled to claim equivalent status—see page 14).
- 7% when the total taxable income exceeds $1,200.

Single Person.

Single persons include all unmarried persons not entitled to status equivalent to married (see page 14), widows and widowers without dependent children, divorced persons, and married persons in the circumstances dealt with in the next two paragraphs.

Wife with Separate Income.

If your wife had income, other than from an employer, exceeding $660 for the year, then each of you are taxed as if you were single persons.

Married Woman.

A wife may claim married status if her husband had income during 1942 of not more than $660. In all other circumstances, a married woman is taxed as if she were a single person. In no case, however, will a husband's right to be taxed as a married person be affected by any amount his wife *earns* by reason of being employed; it is only when she has other income over $660 that he reverts to the status of a single person.

Graduated Tax.

The Graduated Tax rates are not applied to your full *taxable income* (see page 10) but every taxpayer receives an exemption of $660. On taxable income in excess of this $660 the rates are as follows:—

Between	$1	and	$500	Rate of Tax is 30%					
Between	$500	and	$1,000	Tax is	$150	+	33%	on excess over	$500
Between	$1,000	and	$2,000	Tax is	$315	+	37%	on excess over	$1,000
Between	$2,000	and	$3,500	Tax is	$685	+	41%	on excess over	$2,000
Between	$3,500	and	$5,000	Tax is	$1,300	+	45%	on excess over	$3,500
Between	$5,000	and	$8,000	Tax is	$1,975	+	50%	on excess over	$5,000
Between	$8,000	and	$13,000	Tax is	$3,475	+	55%	on excess over	$8,000
Between	$13,000	and	$20,000	Tax is	$6,225	+	60%	on excess over	$13,000
Between	$20,000	and	$30,000	Tax is	$10,425	+	65%	on excess over	$20,000
Between	$30,000	and	$50,000	Tax is	$16,925	+	70%	on excess over	$30,000
Between	$50,000	and	$70,000	Tax is	$30,925	+	75%	on excess over	$50,000
Between	$70,000	and	$100,000	Tax is	$45,925	+	80%	on excess over	$70,000
On	$100,000			Tax is	$69,925	+	85%	on excess over	$100,000

Tax not to Reduce Basic Income.

In no case, however, are you required to pay a net tax (i.e., after credit for dependents) that reduces your taxable income below $660 or $1,200, as the case may be.

Example—

Married man, with no dependents (whose wife has income, other than as an employee, of less than $660) has taxable income of $1,225 for the year.
The rates applicable to his status applied to his income of $1,225 would produce a Normal Tax of $85.75 and a Graduated Tax of $21.45, or a total of $107.20.
This amount, if paid, would reduce his income to $1,117.80.
The maximum tax he is required to pay is $25 ($1,225 less $1,200) and if more has been deducted he is entitled to claim a refund.

Surtax on Investment Income.

In addition to the Normal and Graduated rates, a surtax of 4 per cent applies on all *investment* income in excess of $1,500.

10. WHAT PORTION OF THE TAX IS REFUNDABLE?

Savings portion.

A portion of the 1942 tax represents compulsory savings to be placed to your credit after your tax has been paid in full and your return has been assessed.

When Refundable.

This savings portion will be paid back to you, with simple interest at 2 per cent per annum from 1st October, 1943, not later than the third 31st March following the cessation of hostilities with Germany, Italy and Japan. For instance, if the war were to end on 3rd September, 1943, you would receive your refund not later than 31st March, 1946. Provision is made for payment to his legal representative, at an earlier date if a taxpayer dies.

Calculation of Amount.

This savings portion amounts to one-half of your total tax i.e., Normal Tax plus Graduated Tax plus Surtax, less any allowances for foreign taxes (see page 10) and for contributions to prospecting (see page 15) but must not exceed—

(1) If you are a single person (or a married person with the status of a "single person"—page 16) without dependents—8 per cent of your taxable income (maximum $800);

(2) If you are a married person (or have equivalent status—see page 14) without dependents—10 per cent of your taxable income (maximum $1,000);

(3) If you have dependents—the limitation on the amount of your savings portion, as in (1) or (2) above, may be increased for each dependent by 1 per cent of your taxable income (maximum $100 for each).

Reduced by Deductions From Tax For Personal Savings.

If you claim deductions from your tax for voluntary personal savings (see page 15), these same amounts go to reduce the amount of compulsory savings to be refunded to you after the war. You cannot get the full benefit of the compulsory savings feature both ways—if you get part (or all) as a reduction of the tax, you get only the balance (or nothing) as a refund after the war.

11. 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.

Assessment Notice.

When the necessary checking has been done a Notice of Assessment is sent to the taxpayer which shows the amount, if any, remaining unpaid either by reason of an error in estimating the tax or because the full amount of the estimated tax has not been paid.

12. 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.

EXAMPLES OF CALCULATING THE AMOUNT PAYABLE

A. Single Man—No Dependents—

Total salary or wages, $1,800 ($150.00 per month), interest received on Dominion of Canada bearer bonds, $90. Paid $100 during the year for doctors' and dentists' bills, $75 to an approved employees' pension fund, $40 for life insurance premiums and $40 for donations.

Total Income ($1,800 plus $90)		$ 1,890 00
Less: Doctors' and dentists' bills	$ 100 00	
Less: 5% of $1,890 (Total income)	94 50	
	5 50	
Payments to pension fund	75 00	
Donations	40 00	
		120 50
Taxable Income		$ 1,769 50

CALCULATION OF TAX AND AMOUNT PAYABLE

Normal Tax:			
$1,769.50 @ 7%			$ 123 86
Graduated Tax:			
Exempt	$ 660 00	Nil	
30% on	500 00	$ 150 00	
33% on	500 00	165 00	
37% on	109 50	40 51	355 51
	$ 1,769 50		
Total Tax Payable			$ 479 37
Less: Voluntary Savings:			
Pension fund payments		$ 75 00	
Life insurance premiums		40 00	
			115 00
Total Amount Payable			$ 364 37

METHOD OF PAYMENT

National Defence Tax deductions to Aug. 31, 1942	$ 84 00
Deductions from monthly salary of $143.75 ($150.00 less $6.25 for superannuation) for 12 months from Sept. 1942-Aug. 1943	213 00
Balance payable with return in Sept. 1943	67 37
Total Amount Payable—As above	$ 364 37

COMPULSORY SAVINGS PORTION

The lesser of:		
(1) ½ of $479.37 (Total Tax Payable)	$ 239 68	
(2) 8% of $1,769.50 (Taxable Income)	141 56	
Total amount refundable is		$ 141 56
Less: Amount allowed as deduction from tax (as above)		115 00
Balance refundable after the war		$ 26 56

EXAMPLES OF CALCULATING THE AMOUNT PAYABLE

B. Single Man—Two Dependents—

His dependent mother and 15-year-old brother live with him in his house, and each have incomes of less than $400 for the year. Total salary or wages, $2,400 ($200.00 per month), no other income. Paid $50 during the year for doctors' and hospitals' bills, $100 for life insurance premiums, $200 for mortgage principal on his house and $20 for donations.

Total Income			$2,400 00
Less: Doctors' and hospitals' bills	$ 50 00		
5% of $2,400 (Total Income)	120 00	Nil	
Donations		20 00	20 00
Taxable Income			$ 2,380 00

CALCULATION OF TAX AND AMOUNT PAYABLE

Normal Tax:			
$2,380.00 @ 7%			$ 166 60
Less: Deduction for 1 dependent (the other dependent qualifies him for married status)			28 00
			$ 138 60
Graduated Tax:			
Exempt	$ 660 00	Nil	
30% on	500 00	$ 150 00	
33% on	500 00	165 00	
37% on	720 00	266 40	
	$ 2,380 00	$ 581 40	
Less: Deduction—married status	$ 150 00		
Deduction for 1 dependent	80 00	230 00	351 40
Total Tax Payable			$ 490 00
Less: Voluntary Savings:			
Life insurance premiums		$ 100 00	
Mortgage principal		200 00	
		$ 300 00	
The aggregate of the actual payments exceed the Savings Portion (see below) so only an amount equal to the Savings Portion may be claimed, which is			245 00
Total Amount Payable			$ 245 00

METHOD OF PAYMENT

National Defence Tax deductions to Aug. 31, 1942	$ 66 67
Deductions from monthly salary of $200.00 for 12 months from Sept. 1942-Aug. 1943	157 80
Balance payable with return in Sept. 1943	20 53
Total Amount Payable—As above	$ 245 00

COMPULSORY SAVINGS PORTION

The lesser of:		
(1) ½ of $490.00 (Total Tax Payable)	$ 245 00	
(2) 11% of $2,380 (Taxable Income)	261 80	
Total amount refundable is		$ 245 00
Less: Amount allowed as deduction from tax (as above)		245 00
Balance refundable after the war		Nil

EXAMPLES OF CALCULATING THE AMOUNT PAYABLE

C. Married Man—Two Dependents—

He has 1 child under 18 years of age and contributes $500 as sole support of his invalid mother. Total salary or wages $2,860 ($55 per week), dividends $140 (received prior to Sept. 1, 1942). Paid $200 for medical expenses, $150 to an approved superannuation fund, $100 for life insurance premiums, $200 for mortgage principal on his house and $60 for donations. His wife has income of less than $660.

Total Income ($2,860 plus $140)		$ 3,000 00
Less: Medical expenses	$ 200 00	
Less: 5% of $3,000 (Total Income)	150 00	
	50 00	
Payment to superannuation fund	150 00	
Donations	60 00	
		260 00
Taxable Income		$ 2,740 00

CALCULATION OF TAX AND AMOUNT PAYABLE

Normal Tax:			
$2,740 @ 7%			$ 191 80
Less: Deduction for 2 dependents			56 00
			$ 135 80
Graduated Tax:			
Exempt	$ 660 00	Nil	
30% on	500 00	$ 150 00	
33% on	500 00	165 00	
37% on	1,000 00	370 00	
41% on	80 00	32 80	
	$ 2,740 00	$ 717 80	
Less: Deduction—married status	$ 150 00		
Deduction for child	80 00		
Deduction for mother (maximum)	80 00	310 00	407 80
Total Tax Payable			$ 543 60
Less: Voluntary Savings:			
Payments to superannuation fund		$ 150 00	
Life insurance premiums		100 00	
Mortgage principal		200 00	
		$ 450 00	
The aggregate of the actual payments exceed the Savings Portion (see below) so only an amount equal to the Savings Portion may be claimed, which is			271 80
Total Amount Payable			$ 271 80

METHOD OF PAYMENT

National Defence Tax deductions to Aug. 31, 1942 ($68.67 + $7.00 on Dividends)	$ 75 67
Deductions from weekly salary of $55.00 for 52 weeks from Sept. 1942-Aug. 1943	155 48
Balance payable with return in Sept. 1943	40 65
Total Amount Payable—As above	$ 271 80

COMPULSORY SAVINGS PORTION

The lesser of:		
(1) ½ of $543.60 (Total Tax Payable)	$ 271 80	
(2) 12% of $2,740.00	328 80	
Total amount refundable is		$ 271 80
Less: Amount allowed as deduction from tax (as above)		271 80
Balance refundable after the war		Nil

EXAMPLES OF CALCULATING THE AMOUNT PAYABLE

D. Married Man—Two Dependents—

He has two children under 18 years of age. Total salary or wages, $2,000 ($166.67 per month), no other income. His wife has income of $1,500 a year, payable monthly, from an estate. He paid $200 for life insurance premiums and $50 for donations. His wife had donations of $10.

	Husband	Wife
TOTAL INCOME	$ 2,000 00	$ 1,500 00
Less: Donations	50 00	10 00
TAXABLE INCOME	$ 1,950 00	$ 1,490 00

CALCULATION OF TAX AND AMOUNT PAYABLE

		Husband	Wife
Normal Tax:			
$1,950.00 @ 8%		$ 156 00	....
$1,490.00 @ 7%		....	$ 104 30
		156 00	104 30
Less: Deduction for 2 dependents		56 00	....
		100 00	104 30
Graduated Tax:			
At rates applicable on income in excess of $660		$ 422 30	$ 258 90
Less: Deductions for 2 dependents		160 00	....
		262 30	258 90
TOTAL TAX PAYABLE		$ 362 30	$ 363 20
Less: Voluntary Savings:			
Life insurance premiums	$ 200 00		
As this exceeds the Savings Portion (see below) only an amount equal to the Savings Portion may be claimed, which is		181 15	....
TOTAL AMOUNT PAYABLE		$ 181 15	$ 363 20

METHOD OF PAYMENT

	Husband	Wife
National Defence Tax deductions to Aug. 31, 1942	$ 40 00	....
Deductions from monthly salary of $166.67 for 12 months from Sept. 1942-Aug. 1943	106 56	....
Balance payable with return in Sept. 1943	34 59	....
Payable in quarterly instalments, the first payment being due on or before Oct. 15, 1942	....	$ 363 20
TOTAL AMOUNT PAYABLE—AS ABOVE	$ 181 15	$ 363 20

COMPULSORY SAVINGS PORTION

The lesser of:

	Husband	Wife
(1) ½ of $362.30 (Total Tax Payable)	$ 181 15	....
(2) 10% of $1,950.00 (Taxable Income)	195 00	....
(1) ½ of $363.20 (Total Tax Payable)	....	$ 181 60
(2) 8% of $1,490.00 (Taxable Income)	....	119 20
Total amount refundable is	181 15	119 20
L[illegible] Amount allowed as deduction from tax (as above)	181 15	....
[illegible] refundable after the war	Nil	$ 119 20

EXAMPLES OF CALCULATING THE AMOUNT PAYABLE

E. Married Man—Four Dependents—

He has 4 children under 18 years of age. Total salary or wages $2,000 ($166.67 per month), no other income. No payments for superannuation, donations, etc., or on account of Voluntary Savings. His wife has income of less than $660.

TOTAL INCOME (also Taxable Income)	$ 2,000 00

CALCULATION OF TAX AND AMOUNT PAYABLE

Normal Tax:			
$2,000.00 @ 7%			$ 140 00
Less: Deductions for 4 dependents			112 00
			$ 28 00
Graduated Tax:			
Exempt	$ 660 00	Nil	
30% on	500 00	150 00	
33% on	500 00	165 00	
37% on	340 00	125 80	
	$ 2,000 00	$ 440 80	
Less: Deduction—married status	$ 150 00		
Deduction for 4 dependents	320 00	470 00	Nil
Note: The excess of the deductions over the amount payable for Graduated Tax of $29.20 cannot be applied to reduce the amount of Normal Tax			
TOTAL TAX PAYABLE (also amount payable)			$ 28 00

METHOD OF PAYMENT

National Defence Tax deductions to Aug. 31, 1942	$ 13 33
Deductions from monthly salary of $166.67 for 12 months from Sept. 1942-Aug. 1943	11 88
Balance payable with return in Sept. 1943	2 79
TOTAL AMOUNT PAYABLE—AS ABOVE	$ 28 00

COMPULSORY SAVINGS PORTION

The lesser of:

(1) ½ of $28.00 (Total Tax Payable)	$ 14 00
(2) 14% of $2,000 (Taxable Income)	280 00
Total amount refundable is	$ 14 00
Amount refundable after the war	$ 14 00

NOTE (*re* page 5).—Employers using the Table of Tax Deductions will note that the monthly income between $100 and $102.49 has two considerations:

First, if the monthly income is exactly $100 in the case of a married person or a person with equivalent status, no deduction should be made (because that is the exemption) but if the income is over $100 and below $102.49 the deduction as provided must be made.

Second, employers will note that more is deducted in column 8 from a married man with two dependents than from a married man with no dependents. This is occasioned by the fact that a greater amount of National Defence Tax was required to be deducted at the source in the months January to August, 1942, inclusive, in the one case than was required in the other. Therefore, the married man with dependents has less to be credited against his new tax liability. This occurs also in the equivalent daily and weekly Table of Tax Deductions.