

The main purposes of these Agreements are to establish a more equitable system of taxation throughout Canada by reducing duplication of direct taxation and duplication of machinery for the collection of direct taxes, to give a greater measure of stability to the revenues of the Provinces, and to enable the Federal Government, along with the Provincial Governments, to carry out national policies intended to maintain high levels of employment and production.

The Agreements continue the basic provisions of the Wartime Taxation Agreements, under which the Provinces and their municipalities withdrew their income taxes, corporation income taxes and corporation taxes in return for compensation from the Federal Government, (pp. 900-901 of the 1946 Year Book). There are, however, some additional provisions in the new Agreements which have resulted from the negotiations carried on between the governments in 1945 and 1946 at the Dominion-Provincial Conference meetings and since the Budget offer of June, 1946. The main features of this offer which have been embodied in the Agreements are outlined at pp. 883-884 of the 1946 Year Book.

The Provinces are required, under the Agreement, to refrain from levying certain direct taxes, with the exception that they are permitted to impose a corporation income tax of 5 p.c. on the income of corporations attributable to their operations in the particular Province. The revenue from this tax is to go to the individual Province with a corresponding reduction in the amount of compensation paid to that Province. The purpose of this provision is to assure as nearly as possible a uniform level of corporation income tax throughout Canada as between the agreeing and non-agreeing Provinces. Under the Agreement it is provided, however, that a deduction will be made from the payment to the Province corresponding to the amount of revenue that such a tax would have yielded even if the Province does not impose the tax. The Agreement contains a set of rules by which the income of corporations is allocated to the various Provinces in which they carry on business and further provides that this tax must be imposed under the same general provisions as are in the Income War Tax Act, and that it will be administered on behalf of the Provinces by the Dominion and at the expense of the Dominion.

Another provision concerns succession duties, a field not included in the Wartime Taxation Agreements. The Provinces are now given the alternative of withdrawing from this field or remaining in it. If they withdraw, they receive the full amount of compensation otherwise payable under the Agreement, (in the determination of which succession duties revenue was taken into account) but if they remain, their payment is reduced by the amount of revenue loss which the Dominion suffers, through the credit which is allowed against the Dominion duty for provincial duties on the same succession. All seven of the Provinces which have negotiated Agreements with the Dominion have taken the first alternative and withdrawn from the succession duties field.\*

The Agreement does not prevent the imposition of royalties and rentals on natural resources by a Province since such royalties and rentals are not regarded as taxes when they are of a nature conforming with the definitions set forth in the Agreement. The imposition of taxes on income derived from logging and mining operations, as defined in the Agreement is allowed without any deduction from the payment to the Province.

\* See Succession Duties pp. 1006-1013.