

The Dominion put forward a number of modifications that had been made in its original proposals in the light of discussions in the Co-ordinating Committee. The most important of these were: an increase in the guaranteed minimum annual subsidy from \$12 per capita to \$15; an optional provision in connection with succession duties which would enable any province that wished to continue levying succession duties subject to an adjustment in its annual subsidy and with provision for offsetting credits to the taxpayer; and an expression of willingness by the Dominion to withdraw from certain tax fields as requested by some of the Provincial Governments in return for an adequate financial equivalent.

By this time submissions in relation to the Dominion proposals had been made by all the Provincial Governments. Most of these submissions accepted the Dominion proposals in principle but contained a number of suggested modifications. The submission of the Government of Ontario suggested an alternative approach and differed in principle on some important issues. After five full days of discussion it was found that too wide a gap existed to enable an agreement to be reached at that time and the Conference adjourned *sine die*. The Dominion advised that it would have to proceed with the formulation of its Budget policies in the light of these circumstances.

The Budget Proposals of June, 1946.—The Budget of June 27, 1946, included proposals for a tax agreement which could be entered into by any individual province. In compliance with the Wartime Tax Agreements, the Dominion undertook to reduce the standard corporation income tax from 40 p.c. to 30 p.c. and also to reduce personal income taxes for 1947. The Dominion would also give a tax credit of the amount of personal income tax paid any province up to 5 p.c. of the tax payable to the Dominion. The Dominion proposed to double its succession duty tax, but to provide a credit against this tax of the amount of succession duties paid to a Provincial Government up to 50 p.c. of the Dominion tax. If a province was prepared to agree to withdraw from income tax, corporation tax and succession duty fields for five years, the Dominion would undertake to pay the annual per capita subsidy under the terms proposed at the Conference. Agreeing provinces might levy a 5 p.c. tax on net corporate income within the province to be collected by the Dominion as agent for the province. The proceeds of this tax would be deducted from the annual subsidy, and in the event a province did not wish to levy this tax an amount equivalent to the estimated yield of such a tax would be deducted.

The objective of the Budget proposals was to secure tax agreements with the provinces, but the proposals were designed to enable a province which might prefer to continue its own taxation to do so without unduly penalizing its taxpayers.

Dominion-Provincial Tax Agreements.—Following the Budget Address several provinces entered into negotiations with the Dominion. During the course of these negotiations the formula on which Dominion payments to the provinces would be based was expanded and modified. Under the modified formula every province entering the agreement has a guaranteed minimum annual payment which is subject to adjustment upward for increases in provincial population and in gross national product per capita. For the Province of Prince Edward Island the guaranteed minimum is \$2,100,000. All other provinces have the choice of either one of the following two formulæ for determining their guaranteed minimum annual payment: (1) a combination of \$12.75 per capita of 1942 population, plus 50 p.c. of provincial income and corporation income tax receipts in 1940, plus the statutory