

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 Agreements 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 Agreements contain a set of rules by which the income of corporations is allocated to the various provinces in which they carry on business and further provide 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 Federal Government and at the expense of the Federal Government.

Another provision concerns succession duties, a field not included in the War-time 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 Agreements (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 Federal Government suffers, through the credit allowed against the Federal Government duty for provincial duties on the same succession. All seven of the provinces which have negotiated Agreements with the Federal Government have taken the first alternative and withdrawn from the succession duties field.*

The Agreements do 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 Agreements. The imposition of taxes on income derived from logging and mining operations, as defined in the Agreements, is allowed without any deduction from the payment to the province.

The significant differences between the 1946 Budget offer and the present Agreements are as follows:—

- (1) the provinces may choose between two methods of determining the amount of their guaranteed minimum annual payments (see below);
- (2) the total guaranteed minimum annual payments to the provinces under these new methods are increased by \$25,100,000 to \$206,500,000;
- (3) these new guaranteed minimum annual payments are used as the bases for calculating the annual payments which are adjusted for increases in provincial population and gross national production per capita;
- (4) in the year following the termination of the Agreements, provincial taxpayers are to be allowed by the Federal Government tax credits of a maximum of 5 p.c. of the Federal income tax, 50 p.c. of Federal succession duties, and one-seventh of Federal corporation income tax for taxes imposed by their Provincial Governments.

The guaranteed minimum annual payments are now computed in one of two ways. Under the first option a province may elect as a base \$12.75 per capita of its 1942 population, plus 50 p.c. of its income tax and corporation tax revenue in 1940, plus statutory subsidies payable in 1947; under the second it may choose \$15 per capita of its 1942 population plus statutory subsidies payable in 1947. A special arrangement was made for Prince Edward Island which is to receive a guaranteed minimum payment of \$2,100,000. This is slightly in excess of the amount determined by either of the two formulas. The guaranteed minimum

* See Succession Duties, pp. 1015-1022.