

was also permitted. Furthermore, the Federal Government was obligated by the Agreements to allow such royalties, rentals and taxes to be deducted in the computation of income for federal income tax purposes for the term of the Agreements.

The basis of compensation in the 1947 Agreements differed considerably from that of the Wartime Tax Agreements, 1942, and also from that in the 1946 Budget offer. The provinces were given a choice of two alternative bases. The components of the first option were \$12.75 per capita of provincial population in 1942, plus 50 p.c. of the province's 1940 revenue from personal and corporate income taxes and corporation taxes, plus the statutory subsidies payable in 1947. The components of the second option were \$15.00 per capita of provincial population in 1942, plus the statutory subsidies payable in 1947. A special arrangement was made for Prince Edward Island which was offered a flat amount of \$2,100,000—a sum slightly in excess of the amount determined by either of the two formulas.

An important difference in this basis of compensation from that used in the Wartime Tax Agreements, 1942, was that the amounts determined under these options constituted only floor payments or guaranteed minimum payments. These were subject to upward adjustment for increases in gross national product per capita and provincial population between the base year of 1942 and the average of the three calendar years preceding the year of payment. If, in any of the three years concerned, the amount calculated was less than the amount of the minimum payment, then the amount of the minimum payment was substituted. The use of these upward adjustment factors was designed to insulate the Provinces against the effects of rising costs, while the use of the three year average was intended to inject a stabilizing element into the payments and, with the guaranteed minimum, to offer protection against the effects of a depression.

The guaranteed minimum annual payments to the provinces under the most favourable option and the adjusted annual payments for the period of the Agreements are shown in Table 29.

An interesting feature of the Agreements was the provision that, in the year following their termination, provincial taxpayers were 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 similar taxes and duties paid to provincial governments. The main purpose of this provision was to enable the provinces to re-enter these tax fields with greater ease, if they so desired, after the termination of the Agreements.

Under an offer, ancillary to the Agreements, but one which applied to all provinces, whether agreeing or not, the Federal Government pays to each province one-half of the federal corporation income tax collected on income of corporations derived, in the province, from generating and/or distributing to the public, electric energy, gas or steam, where this is the main business of the corporation. This arrangement originally had effect for the five taxation years ending Dec. 31, 1951, but has now been extended under the Tax Rental Agreements Act, 1952, to the five taxation years ending Dec. 31, 1956.