

agreements are now dealt with separately by means of "tax equalization payments". These tax equalization payments are so calculated that, when added to the tax rental payments, they raise the total per capita return in each province to the average per capita return of standard taxes in the two provinces that have the highest per capita yield of standard taxes.

The standard taxes are: (a) individual income tax at 10 p.c. of the federal tax (raised to 13 p.c. for 1958-59 and 1959-60); (b) corporation income tax at 9 p.c. of corporation taxable income; and (c) succession duties at 50 p.c. of the federal duties averaged over a three-year period.

In addition, provincial revenue stabilization payments are provided which will support the payments to a province at a level determined by the greatest of: (a) the adjusted 1957 tax rental payment, which is the amount payable in 1956-57 to any province whether under an agreement or not, adjusted for any population changes in the year in question; (b) the projected tax rental payment, which is the amount that would be payable to any province in a year if the 1952 Tax Rental Agreements were to be extended into the year in question; and (c) the basic stabilization amount, which for 1958-59 was 95 p.c. of the amount of tax equalization payments, provincial revenue stabilization payments and current tax rental payments applicable to the province in 1957-58; and, for subsequent years, 95 p.c. of the average of such payments in the two previous years.

The tax equalization payments and the provincial revenue stabilization payments are payable to a province regardless of any action they may take in these tax fields. Tax rental payments are subject to agreement.

Rental agreements covering all three tax fields have been entered into with all provinces except Quebec and Ontario. Ontario has rented the individual income tax to the Federal Government but levies its own corporation income and corporation taxes and succession duties. Quebec continues to levy all three taxes. Where a province levies its own taxes, there is a reduction of federal tax provided at the standard rate noted above.

Following a Dominion-Provincial Conference in November 1957, the Federal Government increased the standard individual income tax from 10 p.c. to 13 p.c. This was done on an interim basis for the fiscal year commencing Apr. 1, 1958 only. However, the higher rate was subsequently extended for one additional year and a further measure was introduced in the House of Commons on Apr. 1, 1960 to extend the rate for another two years ending with the expiry of the current Tax-Sharing Arrangements on Mar. 31, 1962.

The proposed amendments to the Federal-Provincial Tax-Sharing Arrangements Act, introduced on Apr. 1, 1960, also provide alternative arrangements for payment of federal grants to institutions of higher learning to be effective for two years ending Mar. 31, 1962. These grants, paid either under the authority of the Federal-Provincial Tax-Sharing Arrangements Act through the Canadian Universities Foundation or, under certain circumstances, when a province so desires, directly by that province. Where a province that does not rent its corporation taxes to the Federal Government chooses to pay the university grants directly, its corporate taxpayers will receive an abatement from the federal income tax of 10 p.c. instead of 9 p.c. Where the loss of revenue to the federal treasury by reason of the 1-p.c. increase in abatement exceeds the cost of university grants of \$1.50 per capita in the province concerned, a deduction equivalent to this excess will be made by the Federal Government from other payments made to the province under the Federal-Provincial Tax-Sharing Arrangements Act. On the other hand, if the cost of such increased abatement of 1 p.c. in the corporation tax rate should be less than university grants of \$1.50 per capita, the Federal Government will pay the difference to the provincial government for the benefit of the universities.

The Federal-Provincial Tax-Sharing Arrangements Act was amended in 1958 to provide for special grants, known as the Atlantic Provinces Adjustment Grants, to be paid to the four Atlantic Provinces for (each of the) four years commencing Apr. 1, 1958, and totalling \$25,000,000 annually divided as follows: Nova Scotia, New Brunswick and Newfoundland each \$7,500,000, and Prince Edward Island \$2,500,000.