

The 1960 amendments to the Federal-Provincial Tax-Sharing Arrangements Act also provided alternative arrangements for payment of federal grants to institutions of higher learning. These grants are paid under the authority of the Act through the Canadian Universities Foundation or, under certain circumstances, directly by the 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.

Three Federal-Provincial Conferences—in July 1960, October 1960 and February 1961—have been held to discuss financial arrangements for the five-year period commencing Apr. 1, 1962. The federal proposals for this period were stated at the February conference, the main points being as follows:—

- (1) The Federal Government would discontinue the tax rental system and the provinces would be free to impose whatever rates of tax in the jointly occupied fields they consider to be necessary to meet their respective financial responsibilities.
- (2) The Federal Government would be willing to collect the personal income tax and the corporation income tax for any province using the same tax base as the Federal Government. A joint tax return would then be used by the taxpayer for both the federal and provincial taxes. This tax collection service would be provided free of charge and pursuant to a tax collection agreement. The Federal Government would also, in the case of any province choosing not to impose a succession duty, pay to such province half of the yield from the federal estate tax in that province calculated in the same way as under the current tax rental agreements.
- (3) The Federal Government would reduce the federal personal income tax progressively by 16 p.c. during the first year of the new arrangement, 17 p.c. for the second year, 18 p.c. for the third, 19 p.c. for the fourth and 20 p.c. for the fifth. The Federal Government would reduce the federal corporation income tax by 9 p.c. of taxable income which is the same as the standard rate of corporation income tax under the 1957 tax agreements and which represents a diminution in the current federal tax of about 22 p.c. With respect to both the corporation and personal income taxes, the federal rates would be reduced from the levels which would otherwise prevail at the times specified. In the case of any province levying a succession duty the Federal Government would be prepared to abate its tax by 50 p.c. The rates noted above for personal income tax, corporation tax and succession duty would constitute standard rates of tax for purposes of calculating equalization and stabilization payments.
- (4) Equalization payments for a fiscal year would be based on the amount, if any, required to bring each province up to the national average per capita yield of the three standard taxes at the progressively rising standard rates noted above, plus one-half of the three-year moving average of gross natural resource revenues as determined by the Dominion Bureau of Statistics for the three fiscal years immediately preceding. In addition, the proposed equalization formula contains two guarantees: (a) no province entitled to equalization under the national average formula would be worse off than it would be under a continuation of the present rates of standard tax (13-9-50) with equalization to the per capita average yield of the top two provinces and with the Atlantic Provinces Adjustment Grants; (b) no province would receive less in total than it received from standard taxes, equalization, stabilization and Atlantic Provinces Adjustment Grants for the fiscal year 1961-62 or the average of the fiscal years 1960-61 and 1961-62 whichever was greater.
- (5) Stabilization payments would be continued assuring provinces that the amount of the yield of the standard taxes plus equalization would not be permitted in any year to fall below 95 p.c. of the average of the totals of the standard taxes, equalization and stabilization for the preceding two years.
- (6) The Atlantic Provinces Adjustment Grants would be continued for a further five years and increased from \$25,000,000 to \$35,000,000 per annum with the basis of distribution among the four provinces being left for them to determine by agreement.