

The increasing use by both the federal and the provincial governments of their rights in the field of direct taxation in the 1930s resulted in uneconomic duplication and some severe tax levies. Starting in 1941, a series of tax agreements were concluded between the federal and the provincial governments to promote the orderly imposition of direct taxes. The duration of each agreement was normally five years. Under the earlier agreements, the participating provinces undertook, in return for compensation, not to use or permit their municipalities to use certain of the direct taxes. Under the present arrangements, the federal income tax otherwise payable in all provinces and the estate tax otherwise payable in three provinces are abated by certain percentages to make room for provincial levies.

The current arrangement became operative on Apr. 1, 1962 and will run until Mar. 31, 1967. Under this arrangement there is a partial federal withdrawal from the field of direct taxation and a re-entry of all provinces into the vacated area. The federal personal income tax otherwise payable on income earned in a province and on income received by a resident of a province is reduced by the following percentages: 16 p.c. in 1962; 17 p.c. in 1963; 18 p.c. in 1964; 21 p.c. in 1965;* and 24 p.c. in 1966.* In 1965 and 1966, the federal tax abatements for income earned in Quebec or received by a resident of Quebec will be 44 p.c. and 47 p.c., respectively. The additional abatement in the case of Quebec is to allow that province to collect revenue to pay for certain programs that are paid for in whole or in part by the Federal Government in other provinces. The Federal Government also reduces its rate of corporation income tax on taxable income of corporations earned in the provinces. The reduction is 9 p.c. of taxable income earned in any province except Quebec and 10 p.c. in Quebec. The additional 1 p.c. reduction in Quebec is to compensate for the additional tax levied by the province on corporation income to provide grants to universities. These provincial grants replace federal grants which in other provinces are paid to the universities by the Federal Government through the Canadian Universities Foundation. The Federal Government also abates the federal estate tax otherwise payable by 75 p.c. in respect of property situated in a province which levies its own death tax. Only Ontario, Quebec and British Columbia at present levy death taxes in the form of succession duties.†

These reductions in federal income tax and estate tax under the terms of the 1962-67 fiscal arrangements do not apply to the Yukon Territory or the Northwest Territories or to income earned outside Canada. The Yukon and Northwest Territories do not impose income taxes or death taxes.

The provincial tax rates are not restricted to the extent of the federal withdrawal. The constitutional position of the provinces permits them unlimited use of direct taxes for the raising of revenue for provincial purposes. However, in all but four provinces (Ontario, Quebec, Manitoba and Saskatchewan) the provincial rates of income tax coincide with the amount of the federal abatement.

As part of the 1962-67 fiscal arrangements, the Federal Government has entered into tax collection agreements under which it collects the provincial personal income taxes for all provinces except Quebec and the provincial corporation income taxes for all provinces except Ontario and Quebec.

* The original agreement provided for abatements of 19 p.c. in 1965 and 20 p.c. in 1966. However, following a federal-provincial conference in April 1964, the provinces were granted an additional two percentage points in 1965 and four percentage points in 1966.

† The original agreement was for a 50-p.c. abatement. However, at the conclusion of a federal-provincial conference in late 1963, it was increased to 75 p.c. in respect of deaths occurring after Mar. 31, 1964. Currently, only the estates of domiciliaries of British Columbia qualify for the full 75 p.c. abatement. Quebec and Ontario estates are temporarily eligible for only 50 p.c. because these two provinces have decided for the time being to take a payment from the Federal Government on account of the additional 25-p.c. abatement rather than to increase their succession duty rates.