

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 federal-provincial tax agreements were concluded 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 arrangements became operative on Apr. 1, 1962 and were originally scheduled to terminate on Mar. 31, 1967, but have been extended to Mar. 31, 1969. They amount to 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. for 1962 income, 17 p.c. for 1963 income, 18 p.c. for 1964 income, 21 p.c. for 1965 income, 24 p.c. for 1966 income and 28 p.c. for 1967 and 1968 income.* The abatements in respect of income earned in Quebec or received by a resident of Quebec are 44 p.c. for 1965 income, 47 p.c. for 1966 income and 50 p.c. for 1967 and 1968 income. The additional points of abatement in Quebec are 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 was 9 p.c. of taxable income earned in any province except Quebec and 10 p.c. of taxable income earned in Quebec for the years from 1962 to 1967. The additional 1-p.c. reduction in respect of taxable income earned in the Province of Quebec for these years was to compensate for the additional tax levied by the province during this period on corporation income to provide grants to universities. These provincial grants replaced federal grants which in other provinces were paid to the universities by the Federal Government through the Canadian Universities Foundation. For 1967 and 1968, with the termination of direct federal financial assistance to universities, the abatement of the federal rate of corporation income tax is 10 p.c. of taxable income in all provinces. The Federal Government also abates the federal estate tax otherwise payable by 75 p.c. in respect of property situated in a province that levies its own death tax.†

These reductions in federal income tax and estate tax 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 five provinces (Prince Edward Island, Nova Scotia, New Brunswick, Alberta and British Columbia), the provincial rates of income tax do not exceed the federal abatement.

As part of the 1962-69 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. for 1965 income and 20 p.c. for 1966 income. However, in 1964 the provinces were granted an additional two percentage points for 1965 income and four percentage points for 1966 income and in 1966 they were granted an additional four percentage points for 1967 and 1968 income.

† The original agreement was for a 50-p.c. abatement but 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 they have elected 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.