

first agreements were implemented for the years 1947 to 1952, pursuant to the Dominion-Provincial Tax Rental Agreement Act. The 1947 agreements started the series of five-year federal-provincial arrangements, each one modifying and broadening the terms and content of the preceding one. For instance, with the adoption in 1957 of tax-sharing arrangements, replacing the tax rental agreements in force since 1942, the federal government initiated an income tax abatement system in favour of the provinces. The 1957 formula, however, was modified by the 1962 agreements so that the provinces could establish their own income tax rates which could be higher or lower than the federal abatement. The federal government undertook to collect for the provinces, with its own income tax, provincial personal and corporation income taxes provided that provincial tax systems were uniform with the federal system. All provinces except Quebec signed the agreements for personal income tax, and all provinces except Quebec and Ontario for corporation income tax. This collection is made at no cost to the provinces except for a small fee for administration of special tax rebates implemented by some provinces.

Generally these agreements are accompanied by revenue guarantees, to prevent a precipitous fall in provincial revenues and hence to strengthen provincial credit ratings.

22.4 Tax rates

Taxes are imposed in Canada by the three levels of government. The federal government has the right to raise money by any mode or system of taxation while provincial legislatures are restricted to direct taxation within the province. Municipalities derive their incorporation with its associated powers, fiscal and otherwise, provincially and are thus also limited to direct taxation.

A direct tax is generally recognized as one demanded from the very person who is individually required to pay it. This concept has limited the provincial governments to the imposition of income tax, retail sales tax, succession duties and an assortment of other direct levies. In turn, municipalities acting under provincial legislation tax real estate, water consumption and places of business. The federal government levies taxes on income, excise taxes, excise and customs duties, and a sales tax.

Provincial taxes and fees. According to the Constitution Act, 1867, a government cannot levy taxes on another government. However, due to the growing complexities of the economic and commercial transactions of governments, the

constitutional provisions for intergovernmental taxation have become increasingly difficult to observe, particularly when government purchases are made through suppliers in the private sector such as retailers and building contractors.

To remove, or at least minimize, the uncertainties and difficulties surrounding the paying of consumption taxes among governments, a set of indexes based on criteria applied to various types of expenditure was devised and is incorporated in the 1977 federal-provincial fiscal arrangements. Under this act, the federal government could enter into reciprocal taxation agreements with the provincial governments as of October 1977. Such agreements were scheduled to run until March 31, 1981, with provisions for renewal. The terms of these agreements also apply to purchases by Crown corporations listed in parts of the Financial Administration Act and the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. Currently, eight provinces have agreed to enter into these reciprocal taxation agreements: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba and British Columbia.

22.5 Provincial government finance

Because of variation from province to province in administrative structure and, to a lesser extent, in accounting and reporting practices, adjustments are made to financial data reported in public accounts to produce statistics comparable between different provinces and with those for the other levels of government. In 1972, the concepts and classifications of the national system of government financial statistics were redefined (see *The system of government financial management statistics*, Statistics Canada 68-507). Financial statistics for the years 1971 onward are compiled in accordance with these revisions.

Gross general revenue is given in Table 22.19 and gross general expenditure in Table 22.20, liabilities in Table 22.15, and liabilities of other governments and entities guaranteed by provincial and territorial governments in Table 22.16. More information on outstanding provincial bonds and debentures is in Table 22.17.

22.5.1 Provincial taxes

All of Canada's provinces levy a wide variety of taxes, fees, licences and other forms of imposition. Among such levies, a relatively small number account for about 75% of total provincial revenue from own sources. Only the more important levies are briefly described here. Table 22.19