

a set of rules according to which an appropriate allocation could be made of a corporation's income to the province. As provided in the Agreements, the tax was imposed under the same general provisions as those of the Income War Tax Act and The Income Tax Act, and was administered by the Federal Government without cost to the provinces. The revenue from the tax was paid over to each province but a corresponding reduction was made in the amount of compensation otherwise payable under the Agreements.

The 1947 Agreements were concerned also with the succession duties which were not "rented" under the Wartime Tax Agreements (*see* p. 1080).

The Agreements expressly permitted the imposition by a province of royalties and rentals on natural resources when such royalties and rentals were of a nature conforming with the definitions set forth in the Agreements. Provincial taxation of income derived from logging and mining operations, as defined in the Agreements, was also permitted. Furthermore, the Federal Government was obligated by the Agreements to allow such royalties, rentals and taxes to be deducted in the computation of income for federal income-tax purposes for the term of the Agreements.

Under the Agreements, the provinces were given a choice of two alternative bases of compensation. The components of the first option were \$12.75 per capita of provincial population in 1942, plus 50 p.c. of the province's 1940 revenue from personal and corporate income taxes and corporation taxes, plus the statutory subsidies payable in 1947. The components of the second option were \$15.00 per capita of provincial population in 1942, plus the statutory subsidies payable in 1947. A special arrangement was made for Prince Edward Island which was offered a flat amount of \$2,100,000—a sum slightly in excess of the amount determined by either of the two formulas. The guaranteed minimum annual payments to the provinces under the most favourable option and the adjusted annual payments for the period of the Agreements are shown in Table 29.

An interesting feature of the Agreements was the provision that, in the year following their termination, provincial taxpayers were to be allowed, by the Federal Government, tax credits of a maximum of 5 p.c. of the federal income tax, 50 p.c. of federal succession duties, and one-seventh of federal corporation income tax for similar taxes and duties paid to provincial governments. The main purpose of this provision was to enable the provinces to re-enter these tax fields with greater ease, if they so desired, after the termination of the Agreements.

Under an offer ancillary to the Agreements but one which applied to all provinces whether agreeing or not, the Federal Government pays to each province one-half of the federal corporation income tax collected on income of corporations derived in the province from generating and/or distributing to the public, electric energy, gas or steam, where this is the main business of the corporation. This arrangement originally had effect for the five taxation years ended Dec. 31, 1951, and has been extended under the Tax Rental Agreements Act, 1952, to the five taxation years ending Dec. 31, 1956.