

ties have been discussed. This first is that the provincial tax might be a percentage of the federal tax. The second is that the provincial tax might be imposed on the basis of taxable income as defined under the Income Tax Act of Canada with a schedule of rates which followed the rate of progression in the federal income tax. The Federal Government is not prepared to offer tax collection agreements on both of these bases concurrently, partly because of the administrative complexity which would result for the Department of National Revenue, and partly because of the inconvenience it would cause to taxpayers and to employers who are responsible for tax deductions at source. In order that it will be possible to separate the provincial content of all tax deductions at source without installing a complete system of separate accounting for the provincial and federal levies, it is necessary that the percentage relationship between the Provincial tax deductions and the Federal tax deductions must be constant throughout the year. Since this is the case, it seems to the Federal Government that a provincial tax levied as a percentage of the federal tax has very clear advantages. We are prepared, therefore, to offer tax collection agreements to provinces in which the personal income tax is levied as a percentage of the federal tax.

"There are no similar complications in the case of the corporation income tax and the Federal Government is prepared, therefore, to enter into tax collection agreements with the provinces for any corporation income tax which is expressed as a flat percentage of taxable income as defined for federal income tax purposes.

"Some provinces have enquired as to the possibility of the Federal Government collecting for the provinces in addition to the income tax, a further flat-rate tax which would apply subject to a stated dollar maximum, as is the case with the Federal Old Age Security Tax. The difficulty with this proposal is that the addition of such a tax to the provincial rate structure would destroy the uniform percentage relationship between the provincial and federal tax in all income ranges. The Federal Government could not, therefore, undertake to collect such a special tax without becoming involved in completely separate accounting on an individual basis for the provincial and federal tax. This is a task which the Federal Government cannot assume because of the unnecessary additional burden it would place on the Department of National Revenue.

NATIONAL RESOURCE REVENUE

"Questions have been raised as to whether natural resource revenue should be included in the formula and particularly whether certain elements of that natural resource revenue which have been referred to as non-recurring should be included. As I stated to the Dominion-Provincial Conference of February 23-24 in presenting the federal proposals, the reason for including natural resource revenue was to broaden the equalization formula by taking account of the great variation in provincial revenues due to natural resources. In our view, this addition to the equalization formula has greatly improved it from the standpoint of meeting the fiscal need of

the provinces. The decision to include 50 per cent of all natural resource revenue as shown in the Dominion Bureau of Statistics publication, 'Financial Statistics of Provincial Governments', was taken to avoid uncertainty in the application of the formula. We believe that a thin line separates recurring from non-recurring revenues in the resource field, if indeed there is any line of separation at all. Consequently, to attempt any such separation would, we believe, lay the whole formula open to doubt and dispute. Since we are including only 50 per cent of natural resource revenue, we are not in any event allowing the full weight of either the recurring or non-recurring natural resource revenue to affect the equalization payments. I conclude, therefore, that the proposal to include 50 per cent of natural resource revenue in the equalization formula should stand as an essential part of the federal offer.

EQUALIZATION GUARANTEES

"Some provinces have asked whether the Federal Government would be prepared to extend the guarantees offered under the federal proposals. One suggestion was that there should be an additional guarantee that no province would receive less in equalization under the new proposals than it would have received under a projection of the equalization component of the present arrangements. Another suggestion was that what was referred to in my statement to the Conference as the (a) guarantee should be extended to provinces above the national average. Under the proposals as presented by the Federal Government, the provinces will receive the benefit of substantially increased tax room in addition to equalization and the equalization guarantees. The federal withdrawal from the personal income tax is to be raised to twenty per cent by the end of the period compared with the standard rate of thirteen per cent for the present year. Having in mind its heavy responsibilities, the Federal Government cannot provide additional equalization guarantees of the type mentioned above while at the same time offering substantially increased tax room to the provinces.

"A further question was raised with respect to the application of the equalization guarantee to those provinces in receipt of the Atlantic Provinces Adjustment Grants. The Atlantic Provinces Adjustment Grants, which it is proposed to increase by \$10 million, will be paid separately under the terms of the new legislation. However, in determining the additional equalization to be paid to a province in the form of a guarantee, it is proposed to take account of the Atlantic Provinces Adjustment Grants. This seems a reasonable procedure in view of the fact that the guaranteed equalization already provides for payments to the provinces in excess of their entitlement under the basic equalization formula.

TAXATION OF FOREST INDUSTRY

"At the Conference I stated that the Federal Government was prepared to consider certain concessions in connection with the taxation of the forest industry if the provinces were willing also to