Dominion-Provincial Tax Agreements

Two special features of fiscal policy during this period deserve brief mention. First was the initiation of a programme designed to lessen and ultimately to eliminate the double taxation of business profits. The first step to this end was taken by the budget of 1949, when authority was obtained to allow shareholders a credit against their personal income tax equal to 10 per cent of income received in the form of dividends. The other special feature relates to the so-called tax-rental agreements with the provinces. In working out these agreements, the Government had in mind three aims: (a) to avoid some of the difficulties which the financially weaker provinces experienced during the depression of the 'Thirties, (b) to eliminate as far as practicable the evils of multiple and conflicting taxation, and (c) to make it easier for the Federal Government to follow fiscal and economic policies designed to minimise cyclical fluctuations. Under these agreements, provincial governments may rent to the Federal Government for a five-year period their rights to levy income taxes, corporation taxes and succession duties in return for annual rentals which are guaranteed never to fall below certain stipulated amounts and which are increased in proportion to any increase in provincial population and in gross national production per capita. Eight of the ten Canadian provinces participated in such agreements during the last five years and nine of them have recently signed agreements for the next five years. As a result, there is only one personal income tax in Canada (the federal) and two corporation taxes (the federal and that of Quebec), while succession duties are levied only by the Federal Government and the Provinces of Ontario and Quebec.

In each of the fiscal years 1947, 1948 and 1949, despite the substantial magnitude of the tax reductions that had been made, actual revenues exceeded actual expenditures by a substantial amount. In fact, the surpluses amounted to 14 per cent, 31 per cent and 27 per cent respectively of total revenues and, in the aggregate, to $1,645 million or 12.3 per cent of the net debt at its war-end peak. In the last two of these years, when expenditures ran a little under $2,200 million a year, the Minister had budgeted for substantial surpluses but even his optimistic forecasts were exceeded. Even in the fiscal year 1950 the trend of activity in Canada, contrary to some expectations, remained persistently upward and the year ended with a further addition of $131 million to the post-war reduction of net debt.

The contra-inflationary aim of fiscal policy during this period was supplemented by intensive annual savings-bond campaigns designed to encourage individuals to continue the habits of systematic saving developed during the war. Moreover, the various wartime controls, particularly the controls over commodity prices and rents, were relaxed only gradually in Canada. Nevertheless, there was a rapid increase in prices after the war, reflecting partly the translation of wartime subsidies into prices, partly the general inflationary trend to higher prices throughout the world and partly the internal pressure upon resources. The slower pace of decontrol in Canada delayed the full impact of the war and its aftermath on Canadian prices, but toward the end of 1948