

The increasing use by both the Federal Government 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 tax agreements was concluded between the Federal Government and the provincial governments 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 April 1, 1962, and will run until March 31, 1967. Essentially, they amount to a partial federal withdrawal from the field of direct taxation and the 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% in 1962
17% in 1963
18% in 1964
21% in 1965
24% in 1966

In 1965 and 1966, the above-mentioned percentage abatements in respect of income earned in Quebec or received by a resident of Quebec are 44 per cent and 47 per cent respectively. The additional relief in the case of Quebec is to allow that province to collect revenue to pay for certain programmes that are paid for in whole or in part by the Federal Government in other provinces.

The Federal Government also reduces its rate of income tax on taxable income of corporations earned in the provinces. The reduction is 9 per cent of taxable income earned in any province except Quebec and 10 per cent of taxable income earned in Quebec. The additional 1 percent reduction in respect of taxable income earned in Quebec is to compensate for the additional tax levied by the province on corporation income to provide grants to universities. These provincial grants replace federal grants that, in other provinces, are paid to the universities by the Federal Government through the Canadian Universities Foundation.

The Federal Government also abates the federal estate tax otherwise payable by 75 per cent in respect of property situated in a province that levies its own death tax.* Only Ontario, Quebec and British Columbia now levy death taxes in the form of succession duties.

* The original agreement was for a 50 percent abatement. However, at the conclusion of a federal-provincial conference late in 1963, it was increased to 75 per cent in respect of deaths occurring after March 31, 1964. Currently, only the estates of domiciliaries of British Columbia qualify for the full 75 percent abatement. Quebec and Ontario estates are temporarily eligible for only 50 per cent, because these two provinces have decided, for the time being, to take a payment from the Federal Government on account of the additional 25 percent abatement rather than to increase their succession duty rates.