

TOP SECRET

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Corporation income tax; deductions for provincial taxes

1. The Minister of Finance said that, under section 12 (1) (g) of the Income Tax Act, which had been passed after the war, all deductions from taxable corporation income in respect of provincial taxes payable by a corporation were excluded, with the exception of those permitted by regulation. The regulation allowed the ordinary provincial taxes on corporations in effect prior to September 12th, 1941 to be deducted as costs of doing business. The only tax on corporations not now deductible was the education tax in Quebec, which had been brought in after the cut-off date. The question was whether all exceptions ought not to be removed.

A limitation was, in effect, an indirect policing by the Federal government of the right of a province to impose taxes within its constitutional jurisdiction. A safeguard would be necessary in time of war but at present it did not appear to be required. The limitation constituted pressure on provincial governments to enter into tax agreements. It seemed preferable that the Federal government should maintain an entirely neutral position. The policy ought to be to make the agreements available on a basis that would permit adequate revenues to the poorer provinces but not to exercise pressure on any province to come into an agreement.

Three courses were available: to maintain the present position; to advance the cut-off date so that the education tax in Quebec would be deductible, but to maintain the present principle; or to adopt the principle that corporation taxes within the field of provincial jurisdiction should be generally deductible. The last course was recommended.

2. In the course of discussion it was suggested:

- (a) that the principle of general deductibility ought to be adopted; and,
- (b) that the announcement in Parliament should state that, while it was not customary to indicate the provisions of legislation before its introduction, the new policy, which would be provided in the bill to amend the Income Tax Act, was being announced in advance because the question had been raised in Parliament.

3. The Cabinet, after discussion, approved the recommendation of the Minister of Finance and agreed:

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