

*Dominion-Provincial Relations*

set out in clause 6 of the bill. If a province contracts out of all the programs itemized, the basic federal tax will be abated a further 20 percentage points in that province. This abatement, together with the 21 per cent abatement authorized by the Federal-Provincial Fiscal Arrangements Act, can mean a total abatement in the 1965 taxation year of 41 per cent, or 44 per cent if the province is prescribed under the Youth Allowances Act. In the 1966 taxation year, the tax abatement can rise to 44 per cent or 47 per cent respectively because of the step-up in abatement provided under the recent amendment to the Federal-Provincial Fiscal Arrangements Act.

The bill provides for equalization to be associated with the tax abatement accorded a province that contracts out of a standing program. The yield of the individual income tax varies from province to province and if the compensation had been entirely limited to tax abatement, it would have been necessary to abate the federal tax in each province by varying amounts for the same program. Such an approach could have resulted in ten different federal individual income tax rates across the country. The present federal contribution to the per capita costs of the major shared cost programs in each province falls within a narrow range. Accordingly, if equalization is associated with the tax abated, it will be possible to maintain a uniform tax abatement for each program. At the same time an opting out province will receive compensation approximately equivalent to the former federal share of the expenditures under the former joint programs.

As I say, the equalized tax abatement will provide compensation approximately equal to the former federal share of the joint expenditure. As it is intended that a province which contracts out shall be neither worse off nor better off than a province which does not contract out, the bill provides for adjusting payments and adjusting recoveries. If the equalized abatement during any year of the transitional period provides more revenue than the contracting out province would have been entitled to if it had remained in the joint program, a recovery will be made; if less, an adjustment payment will be made.

The Minister of Finance and the federal minister responsible for the administration of the program may enter into an agreement to allow a province to contract out of any or all of the special programs where the fiscal compensation will take the form of a cash payment. The agreement may specify that the province will continue the program un-

changed, or it may provide for the province to substitute a provincial program. The substituted provincial program must, in the opinion of the responsible federal minister, have objectives substantially similar to the joint program it replaces. Where a contracting out province undertakes to continue the joint program the agreement will specify the manner in which the province will be reimbursed by the federal government and the way in which the provincial accounts will be submitted.

The bill makes provision for changes in the Financial Administration Act and the Income Tax Act, which are a consequence of the contracting out provisions. The amendment to the Financial Administration Act is a technical one to ensure continuation of the present method used in recovering overpayments to individuals under shared cost programs. I would be pleased to explain this matter further in committee if hon. members wish elaboration.

The amendment to the Income Tax Act is necessary to take care of individuals who have income subject to taxation in more than one province. For instance, people in receipt of income from an unincorporated business and professional partnerships are in this category. As the federal tax abatement may vary from province to province depending on which program a province contracts out of, the income of such individuals may be subject to a different tax abatement depending on the province of origin. The amendment is designed to ensure that where an individual has income subject to taxation in more than one province the abatement applicable to each province shall be applied only to the portion of the taxpayer's federal tax attributable to income earned in that province. By way of digression I might say I at one time belonged to a firm that was in this category and I found it no more complicated to calculate my income tax in each province than it should be under this arrangement.

**Mr. Nowlan:** You were younger then, Walter.

**Mr. Gordon:** If you do not have a big staff to help you it is unlikely that you will be doing business all across the country.

I would like to conclude this short but rather difficult review of the bill by mentioning three points. First, this proposal has emerged from federal-provincial consultation at which agreement has been reached. In other