

in more than one province will be allocated 50% on the sales made from the permanent establishments, and 50% on the wages and salaries in those permanent establishments.

Although the tax-rental agreements produced the desirable result of a single tax system for personal and corporate income tax, they had a drawback that became increasingly apparent as each new agreement was negotiated. The size of the rental paid to the provinces was the subject of negotiation, and of course, as each period passed, the provinces pressed for larger and larger amounts, especially since they did not have to accept the political responsibility for increased federal taxes or reduced federal expenditure programmes to meet the amounts demanded. This being the case, the federal government announced that it was not going to retain the tax-rental system after the expiration of the present agreement. What it proposed instead was to reduce federal personal income taxes 16%, 17%, 18%, 19% and 20% successively in each of the next five years; reduce the federal corporate income tax by 9% of corporate income and continue to share 50% of the estate tax; and having thus reduced federal taxes by the amounts it proposed to share with the provinces, let them levy their own taxes, at whatever rates they decided were required. However, in order to encourage the retention of the benefits of a single tax system, and a single tax collector, the federal government offered to collect the provincial taxes free of charge, if the federal income tax statutes were adopted unchanged except for the rates, which could be varied from province to province. In order to receive a 50% share of the federal inheritance tax, the provinces have to agree to refrain from levying their own estate or succession taxes.

The second element in Canadian federal-provincial fiscal arrangements is the equalization grant. This grant is a partial recognition that some provinces have less fiscal capacity than others, and so need to have their revenues bolstered by an additional payment from the federal treasury. The national average per capita of certain taxes and revenues, chosen because of their importance in provincial budgets and their disparity among the provinces, is used as the standard. The provincial per capita yields of the same taxes at the same rates of tax and the same category of revenue are compared with the national average per capita, and the deficiency per capita, if any, multiplied by the population of the province determines the grant. Thus the provinces with the greatest deficiencies will receive the largest per capita grants. The taxes used for calculating the grants, the standard taxes as they are known, are the personal income tax collections at the rates of federal withdrawal of 16%, 17%, 18%, 19%, 20% in the five successive years of the 1962-67 agreement; the federal corporation income tax at the rate of 9%; and 50% of the collection of the federal estate tax. In addition to the standard taxes, 50% of natural resource revenues are included, mainly because of their great variability among provinces, from 0.2% to 50% of provincial budgets in 1958/59. The revenues from natural resources taken account of in the calculation include both annual payments of the nature of royalties and rentals and the like and lump sum payments such as leases for oil and timber rights. Both types of revenues are considered to be payments for the alienation of resources, and that is part of the reason no distinction is made between them. Because the natural resource revenues include both annual and lump sum payments and, in addition, because of different rates and tax base definitions in the different provinces, only one-half of natural resource revenues are considered in the calculation of the equalization grants.

Once again one has to be careful of this terminology. Equalization grants really only equalize the selected provincial revenues per capita up to the level selected. For the 1962-67 agreement, the national average per capita of the selected revenues will