

a series of federal-provincial tax agreements were concluded 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 were originally scheduled to terminate on March 31, 1967; they have, however, been extended to March 31, 1969. They amount to a partial federal withdrawal from the field of direct taxation and a re-entry of all provinces in 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% for 1962 income
- 17% for 1963 income
- 18% for 1964 income
- 21% for 1965 income
- 24% for 1966 income
- 28% for 1967 and 1968 income.

The abatements in respect of income earned in Quebec or received by a resident of Quebec are 44 per cent for 1965 income, 47 per cent for 1966 income and 50 per cent for 1967 and 1968 incomes. The additional points of abatement 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 corporation income tax on taxable income of corporations earned in the provinces. The reduction was 9 per cent of taxable income earned in any province except Quebec and 10 per cent of taxable income earned in Quebec for the years from 1962 to 1967. The additional 1 percent reduction in respect of taxable income earned in Quebec for these years was to compensate for the additional tax levied by the province during this period on corporation income to provide grants to universities. These provincial grants replaced federal grants which, in other provinces, were paid to the universities by the Federal Government through the Canadian Universities Foundation. For 1967 and 1968, with the termination of direct federal financial assistance to universities, the abatement of the federal rate of corporation income tax is 10 per cent of taxable income in all provinces.