

Before this provincial tax was imposed, the situation in Quebec was that the income taxpayers of that province were paying federal taxes at the same rate as other Canadians although the people of Quebec were not receiving the financial advantage for their provincial services that the people of the other provinces were receiving through the tax rental agreements.

Since the imposition of the provincial tax many of the personal income taxpayers in Quebec are required to pay higher personal income taxes than other Canadians, and payments under the tax rental agreements are still unavailable to the people of that province, because the government of the province preferred, as was its right, not to conclude an agreement.

At the time the provincial tax was imposed, the provincial authorities suggested publicly that the total amount of the tax paid to the province should be allowed by the federal authorities as a tax credit against the federal income tax.

If the federal government had accepted this suggestion, we would have felt obliged to make the same concession to any other province, and this would have meant that the effective rate of federal taxation in each province would have been set by the provincial authorities and would have differed from one province to another. We felt that the federal law must be uniform in its application in all provinces.

We did indicate, however, that the federal government was not wedded to the principle of tax rental agreements to the exclusion of any better alternative arrangement if one could be found. At the same time, we made it clear that the present government had no intention of abandoning the objective of the tax rental agreements which is to make it financially possible for all the provinces, whatever their tax base, to perform their constitutional functions themselves and to provide a reasonable Canadian level of provincial services without an abnormal burden of taxation. That is the foundation of the policy of the federal government.

I had a meeting with the premier of Quebec at his request in October and he indicated, at that time, that he was considering making certain amendments to the provincial tax law which he hoped might make some temporary arrangement possible. My colleagues and I felt it was our duty to make every effort to find some alternative to the tax rental agreements which would preserve the fundamental objective of those agreements which I have mentioned and at the same time be more acceptable to all provincial governments.

We are not yet in a position to propose an alternative to the tax rental agreements which we believe would be generally satisfactory and, as the agreements still have two years to run, we felt that, meanwhile, we should propose a stop-gap arrangement which, without being unfair to the other provinces, would reduce the burden of double taxation placed on many of the income taxpayers in the province of Quebec.

I have already indicated that we could not meet the suggestion of the Quebec authorities and allow the whole of their income tax to be deducted from the federal tax, unless we were prepared to accord a similar right to any other province.

It is our view that whatever differences there may be in the tax laws adopted by the different provinces, the federal laws must be the same everywhere and must be such as to leave the federal government with the revenues needed to fulfil its national responsibilities.

At present the federal law allows every Canadian taxpayer having to pay a provincial personal income tax to claim a deduction up to 5 per cent of his federal tax. This method of deduction raises certain administrative difficulties and, what is even more serious, it makes the real incidence of the