

Only Man., Sask. Advance Income Tax In New System

By ALAN DONNELLY
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The new year ushered in provincial income taxes across Canada but they caused almost no stir.

Except in Manitoba and Saskatchewan, taxpayers experienced no difference. But there is a difference: Part of the money now goes into provincial coffers.

The great majority of taxpayers won't have to do anything different until around April, 1963, when—except in Quebec—they'll file a joint 1962 tax return for both Ottawa and their provincial government. A simple, brief calculation at the bottom of the tax return, allocating part of the tax to their province, will be the only change.

A provincial income tax on individuals is nothing new in Quebec, which has had one since 1954. Quebec continues to collect its own tax.

The other nine provinces entered the income tax field—some of them reluctantly—because of the new federal-provincial fiscal arrangement. This ended the tax-rental system under which for years Ottawa levied the entire income tax and then gave the provinces a share.

TWO TAKE MORE
The new arrangement left it to the provinces to decide whether to boost their share of taxes and a Cross-Canada Survey by The Canadian Press shows that only Saskatchewan and Manitoba took the step.

The smoothness of the transition is due to a key provision in the new tax deal—Ottawa's offer to act as a central collection agent. Collection agreements with the nine provinces give the federal government the legal basis for collecting the provincial taxes.

Under the old tax-rental agreements provinces got 13 per cent of the federal personal income tax collected within their borders.

The new tax deal gives them a bigger slice—16 per cent—and this share will rise by one percentage point annually to 20 per cent in 1966.

It works this way: Overall rates of tax on personal income aren't changed. But if a man owes for example, \$500 in tax, he will reduce this by 16 per cent, or \$80, on his 1962 tax return, and the 16 per cent goes to the provincial treasury. By 1966, the reduction will be 20 per cent, or \$100.

MEDICAL PLAN MONEY
One of the federal government's biggest complaints about the old tax-rental system was that the provinces kept asking for larger payments from Ottawa, leaving the central government with the disagreeable task of increasing its taxes to meet their demands.

Manitoba wanted more money to reduce hospital insurance premiums. Saskatchewan needed funds to help finance its medical care insurance plan.

Both provinces decided to take an extra six-per-cent share of personal income taxes.

This means that for 1962 they will take 22 per cent of the income tax liability of each individual, rising to 26 per cent by 1966. Since this is more than the federal abatement, income taxes will be higher in those two provinces than elsewhere.

A Manitoba or Saskatchewan resident with a \$500 tax liability this year will get an \$80 reduction from Ottawa but will pay \$110 to his provincial government.

Quebec's personal income tax is approximately 16 per cent of the total levied in the province. It isn't known what the province will do about the future federal withdrawal to 20 per cent. But it's expected the Quebec government will "take what ever additional revenue" it can get without danger of double taxation.

GUIDES MAILED
Ottawa has sent out personal income tax deduction guides to employers who withhold the tax from pay cheques. There are three forms—one for Quebec where Ottawa doesn't collect the provincial tax, one for Manitoba and Saskatchewan at the higher rates, and one for the rest of the country.

The new tax deal also requires the provinces to levy their own corporation income taxes, with Ottawa providing collection services where desired. Here, too, there will be a variety of rates from province to province.

The federal government is reducing its tax rates on corporation profits by nine percentage points—the same share the provinces got under the tax-rental plan. This gives the provinces leeway to levy a nine-per-cent tax without added tax burden on corporations.

The federal rate will drop to 13 per cent from 21 on corporate profits up to \$35,000 and the rate on profits over \$35,000 will drop to 41 per cent from 50.

But there is a greater variety of provincial rates of corporation tax. Ontario has already been levying an 11-per-cent tax and Quebec a 12-per-cent tax, and both provinces collect their own.

Manitoba and Saskatchewan have decided to add an extra percentage point bringing their rates to 10 per cent. The other six provinces are sticking with nine per cent. Ottawa will do the collecting for all eight provinces.

The sole remaining vestige of the tax-rental system is in estate taxes. The federal government will continue to pay half of its collections of estate taxes to provinces that don't levy a succession duty, and this includes all but Ontario and Quebec.

The new tax deal has brought criticism and opposition—some of it vehement—in provincial capitals and on Parliament Hill.

One of the main accusations has been that it will mean "a return to the tax jungles of the 1930s." In 1939, all provinces had their own corporation income taxes and seven levied personal income tax. But each collected its own, and there was no offsetting reduction in federal taxes.

Most provincial legislatures have adopted model tax bills suggested by Ottawa covering the five years to 1966 and taking advantage of the progressive increase in the federal withdrawal from personal income taxes.

Nova Scotia is an exception. Its law applies only to 1962, but legislation next session is expected to be uniform with the other provinces.

The provincial income tax simply as a percentage of the tax as determined under federal law, and their corporation taxes are based on taxable income of companies as determined by federal law.

It is this provision which enables Ottawa to act as collection agent. Officials say it will also rule out income tax appeals in the courts against the amount of provincial taxes.

One criticism of the decision to put the provinces back into the income tax field has been that it will limit the federal government's power to influence the economy by tax changes.

The way the new system is set up means that any federal

increase or reduction in personal income taxes will automatically alter the amount the provinces get. But a federal change in corporation income tax rates won't affect the provincial income since their corporate tax rate is specified in provincial legislation.

PAYMENTS REVERSED
The greatest burden of complaints, both in Parliament and provincial legislatures, wasn't directed at the tax deal itself but at another aspect of federal-provincial financial arrangements—equalization payments.

These payments are made by Ottawa to less wealthy provinces. Formerly they were designed to assure that the per-capita tax yield in eight provinces from their fixed-share tax payments was equal to the average yield in the two wealthiest provinces—Ontario and British Columbia.

Under the new plan, federal equalization payments will be geared to the average returns in all provinces, and also will take into account provincial revenues from natural resources.

This has meant a cut in equalization payments for B.C. and Alberta, offset by a special floor provision. Similar cuts in the Atlantic provinces have been more than offset by an increase to \$35,000,000 from \$25,000,000 in the annual Atlantic provinces adjustment grants which they share.

Last July 11, Finance Minister Fleming issued a report

forecasting the value in 1963-64 of the federal tax withdrawal, equalization payments, Atlantic adjustment grants and a special \$8,000,000 grant to Newfoundland. These totalled \$699,414,000, based on an assumption that tax yields would rise five per cent. This compared with the estimated \$646,572,000 value of the comparable 1961-62 financial arrangements.

The comparative breakdown by provinces, in thousands of dollars:

1962-63	1961-62	
Newfoundland	\$36,504	\$36,152
P.E.I.	8,213	7,539
Nova Scotia	43,011	39,708
New Brunswick	35,258	34,512
Quebec	341,500	332,725

RE-NAME STREET
VIENNA (Reuters)—The municipal council of the Czechoslovak city of Bratislava has renamed Molotov Street as "Street of Stores," according to newspapers reaching here. Praca, the Slovak labor union newspaper, which listed several new street names, gave no reason for the change. Former Soviet foreign minister Molotov was denounced as one of the leaders of the "anti-party" group at the Communist party congress in Moscow in October.

The Guardian, Charlottetown, Thurs., Jan. 18, 1962

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