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ments to meet in Conference "in order to secure, if possible, the adoption of the Commission's recommendations".¹³

Soon after the Conference assembled on January 14, 1941, it became evident that the Premiers of Ontario, Alberta, and British Columbia were sharply averse to proceeding upon the basis of the Report of the Royal Commission. It is not merely coincidence that if the Report had been followed, these three provinces would have not received any national adjustment grants. However, Premier Hepburn of Ontario based his opposition upon the contention that the Report was a peacetime measure and that the exigencies of war should not be made the cloak for hasty action. Premier Aberhart of Alberta and Premier Pattullo of British Columbia took a similar stand (although the views of the former were somewhat obscured by his advocacy of social credit). In the face of this dissent, the Conference broke up the next day.

It had, however, served a purpose. In a blunt speech the federal Minister of Finance, J. L. Ilsley, had indicated the severity of the financial measures he intended to utilize, and the provincial Premiers had declared their willingness to help "in every conceivable manner so far as prosecuting this war is concerned".¹⁴ This commitment was soon to push the provinces along the road the Commission had marked out.

THE WARTIME TAX AGREEMENTS

On April 29, 1941 Mr. Ilsley proposed that the provincial governments surrender to the federal government, for the duration of the war and one year after, the field of income taxation, both personal and corporation. As compensation they were offered either the revenue they actually collected from this source in 1940 or the net cost of debt service in 1940 (less their revenue from succession duties), and also a subsidy based on fiscal need if need could be shown. All the provinces accepted the offer and signed 'tax suspension agreements'. Four provinces—Prince Edward Island, Nova Scotia, New Brunswick, and

¹³ *Dominion-Provincial Conference, January 14-15, 1941* (King's Printer, Ottawa, 1941), p. V.

¹⁴ *Ibid.*, p. 101.

Saskatchewan—took the debt option, and five—Prince Edward Island, Nova Scotia, New Brunswick, Manitoba, and Saskatchewan—were paid fiscal need subsidies.¹⁵ The federal government made two further concessions: it guaranteed the provincial governments the amount of their gasoline tax revenues in 1940 and their liquor revenues in the amount collected in the twelve months ended June 30, 1942. The second guarantee did not subsequently involve the federal government in any payments; the first required payments of \$11,621,000 in 1943.

The overwhelming factor that made possible the prompt negotiation of the tax agreements was the war. The federal government had clearly in mind the fiscal policy it intended to pursue, and its wartime constitutional right to do so could not be questioned. Drastic use of income taxation would impair provincial revenue from this source.¹⁶ Any protest was silenced by the patriotic desire to implement the total war effort of the Dominion.

What would happen when the war was over? Would wartime 'occupancy' by the federal government be made permanent or would reversion be possible? In his budget speech of 1941 Mr. Ilsley spoke of the occupancy "as a temporary step, for the duration of the war". "It was not," he declared, "an attempt to get the provinces out of those tax fields permanently."¹⁷ And in each agreement the federal government promised in the year after termination "to reduce its rates of taxes by such an amount as will enable the Province again to use the income tax and corporation tax fields, and in particular the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten percent of such incomes."¹⁸ The preamble to

¹⁵ Alberta signed an agreement on the tax option basis, but in 1945 was permitted to shift to the debt option basis (Dominion-Provincial Conference on Reconstruction (hereafter referred to as Conference), *Dominion Subsidies to Provinces*, pp. 28-29). In 1943 the fiscal need subsidies were \$3,234,000: Prince Edward Island, \$437,000; Nova Scotia, \$326,000; New Brunswick, \$372,000; Manitoba, \$600,000; Saskatchewan, \$1,500,000.

¹⁶ Ontario, Manitoba, and Prince Edward Island allowed as a deduction from the income of their taxpayers the amount of the income tax paid to the federal government.

¹⁷ Conference, *Personal Income Taxes*, p. 9.

¹⁸ See Conference, *Dominion Subsidies to Provinces*, p. 66.

each agreement stated that a province should not "be deemed to have surrendered, abandoned, or given over to the Dominion any of the powers, rights, privileges or authority" vested in it.¹⁹ As far as words went, no doubt could exist that provincial power had not been impaired. No great perspicacity was required, however, to foresee that the forces that made for federal occupancy during the war would not be spent after the war, that taxpayers might wish to retain the luxury of one law and one return, and that those provincial governments which received more by way of subsidies than from provincial collections might prefer to continue the agreements.

The income tax was an important element in the wartime fiscal effort of Canada. Canadian rates of personal income tax were well above those of the United States, especially in the middle brackets. Federal revenue from the personal income tax in 1944 was five times greater than in 1941, and that from corporation taxes three and one-half times.

THE DOMINION-PROVINCIAL CONFERENCES OF 1945-1946

On August 6, 1945 a Dominion-Provincial Conference on Reconstruction assembled at Ottawa. The purpose was to work out a scheme that would "ensure the maximum of cooperation between the Federal government and the governments of the provinces in order that the Canadian people, working together, may achieve the constructive goals of peace as effectively as they have carried on the essential, though inevitably destructive, tasks of war".²⁰ To this end the federal government laid before the provinces an extensive and explicit set of proposals.²¹ These were not simply financial; they covered, in addition, the broad fields of "public investment policy" and "social security". The details of the proposals are examined below. In essence the federal government offered to *all* the provinces, in return for their relinquishment of the right to levy the income tax and succession duties for a term of years, unconditional subsidies

¹⁹ *Ibid.*, p. 61.

²⁰ Dominion-Provincial Conference, 1945, *Dominion and Provincial Submissions and Plenary Conference Discussions* (King's Printer, Ottawa, 1946), p. 2. The words are those of Mr. King.

²¹ Conference, *Proposals of the Government of Canada*. August 1945.