

Newfoundland

Mr. Castleden: That seems contrary to the provisions of subsection 4.

Mr. Abbott: The Prime Minister explained a little earlier this afternoon, when perhaps the hon. member was not present, that that was inserted in order to provide that the new provincial government of Newfoundland would not be obliged to breach any contracts which might have been entered into by the colonial or dominion government with respect to the matters referred to in that section. My hon. friend will recall that, under the agreements with the seven provinces in connection with income and corporation taxes, those provinces are required to impose a five per cent corporation tax on corporations within the provinces. In view of this section, that provision would not be applicable to Newfoundland.

Mr. Coldwell: That would not preclude Newfoundland from doing anything of its own volition?

Mr. Abbott: No.

Mr. Coldwell: This simply provides that the dominion government will not require Newfoundland to do something. There are certain contracts that were made in Newfoundland some years ago under which great concessions were given to certain corporations that pay hardly any taxes at all. This would not prevent Newfoundland dealing with that situation?

Mr. Abbott: No, not at all. I think I said yesterday that the effect of this agreement would be to preserve the legal rights between contracting parties. The dominion government is not requiring the government of Newfoundland to do anything which would be a breach of a statute or of an agreement entered into with that government.

Mr. Coldwell: But Newfoundland itself?

Mr. Abbott: Newfoundland is perfectly free to do as it pleases.

Mr. Coldwell: If the courts hold it cannot do it, that is a different matter. As far as we are concerned, we are not forcing them to do anything, but they can of their own volition try to do what seems best to them?

Mr. Abbott: Right.

Mr. Castleden: Canada reserves the right to carry on corporation taxes after the agreement?

Mr. Abbott: Right.

Mr. Drew: Is it not correct that under the agreements that have now been signed with seven of the provinces they are required to impose certain taxation as a part of the terms?

Mr. Abbott: Correct, yes.

Mr. Drew: As I understand it, a provision to that effect was incorporated to avoid any possibility of a constitutional dispute as to whether the tax was being imposed within the provincial or the federal field. The provinces actually collect it, but it does not affect the total that is received by the dominion government before the subsidy payments are returned to the provinces. As I read this section it would mean that, although the dominion government undertakes to pay subsidies in accordance with the same terms that have been signed by certain provinces, the provincial government in this case might not be in a position to carry out the same undertaking other provinces are called upon to give in regard to the imposition of certain taxes.

Mr. Abbott: That is possible. Of course, as my hon. friend appreciates, that provision was inserted in the agreements with the seven provinces in order to assure that as far as possible corporation taxpayers in non-agreeing provinces would not be prejudiced. That was the sole purpose of including that provision in the agreements with the seven provinces. The agreements contain a provision that the dominion may at any time require those provinces to repeal the five per cent corporation tax. My hon. friend is quite right in saying that the net effect is that the provinces do not retain any more money. In fact, the dominion government gets the 35 per cent rate as a result of the combined effect of the federal tax and the provincial tax.

Mr. Drew: Does the minister know what the actual effect of this is?

Mr. Abbott: The actual effect of this provision?

Mr. Drew: Of subsection 4.

Mr. Abbott: The actual effect of subsection 4 would be—

Mr. Drew: I am talking about the practical effect.

Mr. Abbott: The practical effect is that the dominion government imposes at present rates a 30 per cent tax on corporations, but in the case of Newfoundland, if the province so requested, we would not impose upon them an obligation to collect a corporation tax, let us say of five per cent, as in the case of the seven other provinces, which would involve a breach of covenants that predecessor governments may have entered into with corporations or others in that field. As the hon. member for Rosetown-Biggart has pointed out, no restriction is placed upon what the new Newfoundland government does in this connection. But, to put it rather colloquially, we would not impose, as a condition of getting