

head, that will depend on the population, but it cannot fall below the amount of the first year of union. The \$1 million should not go up or down. It is a fixed permanent amount in lieu of special subsidies.

Mr. Chairman It says, "in lieu of the various fixed annual awards."

Mr. Butt It also says "provided by statute *from time to time*."

Mr. Smallwood The Duncan award — Sir A.R. Duncan, Chairman of the Duncan Commission in 1926; and Mr. Justice White, Chairman of the Sirois-Rowell Commission in the following year; Duncan-White awards. Incidentally it was under that same award that the Maritime Freight Rates Act was enacted and the Maritimes received lower freight rates, at least 20% reduction; that is also the Duncan-White award. It is also made available to Newfoundland in a clause further over.

[The committee recessed until 8 pm]

Mr. Smallwood I wonder if it would be in order to go on to clause 12?

12. *Tax Agreement.* Newfoundland will be entitled to enter a tax agreement for rental to Canada of the income tax, corporation tax and succession duty (inheritance tax) fields on either of the following bases, the option to be exercised within six months after union:

1. On the same basis as the existing agreements with other provinces which apply to fiscal years up to and including 1952;

2. An agreement providing for the same annual basis of payment by Canada as in existing agreements with other provinces (i.e. existing at the date of the exercise of the option), applying to fiscal years up to and including 1957, regardless of the terms which may be negotiated (after the date of exercise of the option by Newfoundland) by other provinces in any renewals of the existing agreements.

If Newfoundland enters into a tax agreement, the subsidies under clause 11 above (\$180,000 and 80 cents a head of population and the fixed annual subsidy of \$1,100,000) will, as in the case of similar subsidies to other provinces, be included in the computation of tax agreement payments. (The methods of computing the payments to New-

foundland under such tax agreement are set forth in Annex III).

Annex III is a most complicated and difficult thing to read, let alone understand. I am quite certain that not one in 100,000 hearing the intricate mass of figures showing how the tax agreement payments are computed will understand it. Perhaps the Convention would be satisfied if I did not read it. If that were agreeable, I would explain the general principles of the tax agreement. The position is this: the Government of Canada is permitted under the British North America Act ... to raise its revenue by almost any kind of taxation; but the provinces are limited to direct taxation to raise revenue. Most of the provinces up to 1941 had their own provincial income tax. In fact, some town councils in some provinces had their own municipal income taxes. Up to the outbreak of the war, you would find, in some cases, three income taxes — one collected by your own town council, one collected by the government of your province, and the income tax collected by the Government of Canada.... When the war broke out, the cost of the Canadian effort had to be borne by the federal government, not by the governments of the towns or provinces. They knew that it was going to be a very expensive proposition to fight that war. I think Canada raised nearly half the money by taxes. The taxes were very high. They raised a little over half by borrowing from the people. As the Government of Canada was going to pay the cost of the war, it went to the various provinces and said to them, "You are not going to have to pay the cost; we are going to pay the cost and we will make an agreement with you for the period of the war." They called in the premiers of the nine provinces and they said, "We will pay you a fixed amount every year as long as the war lasts, the average amounts you collected for three years before the war broke out. We will pay it as long as the war lasts and a year after. In return, you must stop collecting corporation taxes, death duties and income taxes during the war and while the agreement is in force." The provinces agreed. Beginning 1941 the only income tax collected in Canada was collected by the federal government, none by the provinces.... The war came to an end, and the people of Canada were rather fond of the idea of paying one income tax. True, the Canadian government had the monopoly; they