

people, there will be less need for nailing down explicitly the ways in which States use Federal money.

Senator SYMINGTON. Thank you.

Thank you, Madam Chairman.

Representatives GRIFFITHS. Thank you.

May I ask you, Professor Maxwell, to comment on the method used in Canada and Australia of giving back block funds?

Mr. MAXWELL. During World War II the Federal Government of Canada obtained complete jurisdiction over income taxation, individual and corporate. Postwar it negotiated "rental" agreements by which percentages of Federal collections in a Province were paid to the provincial governments. In 1962 it shifted to a tax-sharing basis. Provincial governments were to impose their own income taxes. If the base were the same as the Federal base, the Federal Government would collect the provincial tax, free of charge. If, however, a province collected its own income taxes, the Federal Government allowed taxpayers to abate their Federal liabilities by certain standard percentages—in 1964, 24 percent of the individual income tax and 9 percent of the corporation income tax. Only Quebec administered its own individual income tax; Quebec and Ontario administered their corporation income taxes. Three-quarters of Federal estate tax collections are also paid to the Provinces.

Besides these arrangements applicable to all Provinces, the Federal Government makes equalization payments calculated for 1966 as follows: The per capita yield from income taxation at the standard percentages in each Province is subtracted from the average of the two highest Provinces (Ontario and British Columbia). This per capita amount is multiplied by the population of the Province to get its equalization grant. The formula contained an adjustment for natural resources revenue which I shall not describe. Further equalization payments, calculated on a different basis, are made to the four Atlantic Provinces.

In Australia, during World War II, the Commonwealth Government took complete jurisdiction over income taxation and, after the war, it retained this position, despite the objection of the States, through favorable decisions of the High Court. Tax reimbursement grants have been paid to the State governments and, over the years, the basis has moved markedly away from "reimbursement" and toward appreciable equalization. The name was changed in 1957 to financial assistance grants. The explicit basis of the equalization was "adjusted" population; that is, account was taken of sparsity of population. Every 4 or 5 years at a Commonwealth-State Conference the basis for the past term is modified by political bargaining. Pragmatic agreement is reached, but no theoretical basis exists either for the amount or the distribution of the grants.

Since 1933 the Commonwealth Grants Commission has been equalizing grants to three (currently two) poor or "claimant" States. The basis has been a complicated calculation of tax effort and costs of major governmental services of "claimant" compared with nonclaimant State governments.

Representative GRIFFITHS. Has there been any tendency for the local tax sources to decay?