

Scott Conference-MG NOTES

"The Nature of Fed. ~~Govt~~ - Provincial relations

F. Scott

Areas

1. Nat. Xp'tn.

Rail

Highway
air

Water

2. Taxes

Royalties - deductible

Local prop. taxes

Timber

3. Water

Columbia Treaty. Help B.C. repudiate, re negotiate.
Shagie

4. Employment.

Combat unempl. w/o giving away res. to do it.

And w/o wasting capl. on DREE etc. projects. & w/o visiting us w. plague of Fed. bureaucrats
E.g. by adjusting UIC rates, lower where & when unempl. is high.

By lowering Fed. tax rate on labor

~~2.~~

2. Taxes, again

Fed. policy gives big ~~privileges~~ let's firms expense a lot of capl. invt.; take depln, etc.

But not deduct provincial royalties.

Feds. shd. get more from oil firms, but w/o taking from provinces.

Feds. played into hands of multi-nats., ~~made it~~

created fight w. provinces, instead of going after co. income. I.e., the only deduction they closed off was Prov. rev. — not co. rev.

went to war vs. own provinces rather than oil cos. etc.

5. Fish

Fed. quota system, ca. 6 yrs. old, worth
~~3,000~~ \$4,000/ton.

Is the kind of thing we want to avoid, &
wish Ottawa wd. avoid.

Developing hydro on streams, conflict & tradeoff
between prov. & fish, need to develop tradeoffs.

A reasonable basis for tradeoffs means to b-c
principles, mutually agreed — same technique B.C.
is developing to reconcile conflicts among our
own agencies.

Recre. fishing vs. comm. Recre. may get
worse deal, b/c Fed. power overrides.

Comm. boats buzz recre. boats, outside our
jurisdiction. And they pollute shores, worse than
oil spills — noise pollution.

6. Pollu.

Need Fed. aid vs. tanker traffic. No use to
clean up locally. have U.S. pollute.
Help promote rail alternative - now
supported by Dief.

Ecsts. from Ontario all want to give away
pollu. rights, as they Feds. gave fishing rts.

7. Offshore rts.

Anything produced out there shd. come under
B.C. marketing board.

8. Broadcasting

Has been Fed. bcs. of nature of spectrum res.
Cablevision changes technique. Can be

prov.

Fed. shd. limit itself to things smaller units
cannot do for selves.

9. Anti-combines policy
Feds. shd. either move it or milk it.
Stop preempting field & doing nothing.
Let provinces loose to force comp.
among lessees.

10. Federal lands.
Don't sacrifice provincial lands for
Fed. People live on provl. lands.
Fed. lands are playground of Fed. Civil
Service, & a huge sink of scarce capl.

11. Nat. Energy Bd.
- stay away from B.C. mktg. bd.
NEB was unable to stand up against FPC.
It took B.C. bd. to do this.
NEB put in the 105% clause. At the
time it seemed to play into the hands of U.S. —
but we fooled 'em.

Canada needs to unite, Fed. & Prov., against
multi-nats. rather than let them play us off vs. one
another

NEB has authority to recommend higher export prices to G. in C., & G. in C., by Reg. 11(a) of NEB can ~~not~~ revise min. export price. But failed to act.

By summer, 1973, NEB showed no sign of acting. So BCEC did.

(Why can't NEB raise price of exported hydro energy under Col. Treaty?)

2. Taxes (again)

Non-deductibility of prov. royalties - new budget sticks to it.

But they allow 100% expensing. May 6 proposal went to 30% d.b. expensing.

As long as royalty is 5% or less, corps. pay less tax under new budget, bcs. they get lower rate or faster writeoff.

✓ Producer is taxed on price at which BCPC resells to xmen line, not on price they are paid. Thus, Fed. taxes profits of BCPC -- now that is bad.

12. Fed. Equalization. Payments to provinces with less than ave. revs. This is a reward for low fiscal effort, as Turner budget penalizes high fiscal effort.

Fed. shd. encourage local fiscal effort, & redistribute spending, e.g. by matching social dividends.

13. Bob wants rent collected at source, not down the line after mixed w. human effort.

14. A) Objective of good Crown mgmt. of land is to act like a vigorous, alert pt. landowner max'g his position.

Rent into Crown nonful. inc. - the gravy in land use, or rent.

A tnt. on pt. land can deduct rent as cost of doing bus. A lessee on land of Crown Prov. has always had same choice. - until now.

By denying deductibility, Fed. Crown is asserting equity in land of Crown Prov. Not merely taxing income. Is taxing more than income of lessee, is taxing income of Crown Prov., inc. of the Prov. landlord. Is same as if applied Fed. tax to taxes levied by province. Fundamental denial of basic principles of Confedn.

B) Crown Prov. can get rev. from lands much more effly. than Fed. can, bcs. can get rent, which $\neq$ inc.

Inc = ~~Rev~~ Cash Flow - Deprec.

Rent = " " - Cap Rec.

Cap Rec. = Deprec. + int. on unrec. balance

(Expln. is a cost of land acq. in some large part, and least worthy of being expensed.)

Fed. could stab at taxing rent by expensing cap. outlays, ~~that~~ which has same effect as lett'g people deduct int. on unrecov'd balance.

But this has to rely on landowner's evaluation of res. b/c Ottawa (home) is so far away. Prov. Comm. is closer, knows the indiv. variations in local res. better, and $\therefore$ can identify rent better, rather than relying on w. books entirely.

There is rent b/c world is not uniform. Hi grade, low cost dep. yield rent. If net = $\frac{1}{2}$ gross, it's rent.

B/c C.P. collects rent in rent, at source. Inc. is in personam, or in corporation, gets mingled w. other things, can be dissip. by corp. in:

- a. Padding costs, luxurious perqs, high salaries.
- b. Other projects, ~~fixed~~ cap. outlays expensed.

Fed. also fails by granting deple. allowance, an exemption of rent itself.

And by expensing expln., which is a cost of land acq. in large part.

Cannot say Fed. policy designed to protect res., b/c in most ways it throws away all potential res.

Fed. cd. also help by ^{clarifying} that it will
letting Provinces ~~tax~~ define
rent.

Shd. be no problem, bcs. rent is not ^{same as} income

Royalties, yield taxes, are more gross than inc.
Rent is less " " "

→ Fed. wd. serve the Provinces well if it steered
them away from gross charges, but left them net rent.

✓ 15. They used to say rent was small. Now, C. Pr. learning to collect it, Fedl. say is threat to Fedl. tax base.

They worry about destroying rent by collecting it.
But is no equal worry about disincenting labor.

16. Nov. budget amends May 6 by allowing 100% write off of expln., instead of 30% (d.b.)

But devent. still written off as incurred.

"Devent." begins when a prodn. decision has been made - but line not clear.

(Forest stumpage & royalties are deductible.)

17. A corp. can deduct spending that builds up its own assets, but not payments to ~~citizens of~~ Crown Pr.

Can deduct royalties to prt. landowners, but not to Crown.

If one govt. can tax revs. of another, it can destroy the other. Worldwide, central govts. do not tax revs. of confederated local govts. ? basic.

Turner refuses deductibility b/c. he regards them as disguised income taxes. But ~~exist~~ prop. taxes are deductible - so, either a) Treat these as prop. taxes or, b) regard royalty as a reservation by seller. A.G.'s

F. Scott paper

May 1, '75

Ferguson

1. Barnett says P.C. policy is to reimburse firms for extra taxes paid

2. Corp. inc. tax of Province is collected by Ottawa

✓ (for all Prov. some Que. & Ont.)

Tax is allocated, half by sales & half by payroll

For Scott

381-6210 or 5129

Hugh Ferguson. } Specializes in intergovt. relations

Bill Stone. } Victoria guys in Finance, numbers

Keith Prowse. } men. See if they're reasonable
for a conf. - Choose one, probably
Prowse

ask
coming.

Douglas Clark, from Ottawa, a numbers man, is

Walter Young, James Mathin - I should
ask them.