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FEDERAL-PROVINCIAL TAX SHARING

On July 13, Prime Minister John G. Diefenbaker received a letter from Premier Lesage of Quebec concerning the fiscal arrangements proposed by the Federal Government. Among other matters dealt with was a request to convene a further Federal-Provincial fiscal conference, which had also been suggested by Premier Robichaud of New Brunswick and Premier Douglas of Saskatchewan.

The reply of the Prime Minister was as follows:
"My dear Premier:

I have received your letter dated July 13, concerning the federal-provincial fiscal arrangements for the period commencing April 1, 1962.

You are no doubt aware that Bill C-122, entitled 'Federal-Provincial Fiscal Arrangements Act', was introduced in the House of Commons on July 12 and is standing for second reading following the resumption of the present session in September. The features of the new fiscal arrangements and the reasons therefor were set forth in the speech of the Minister of Finance on July 11....

Under the new system, the Provinces will retain their full freedom to levy and collect whatever taxes they choose in the fields of personal income tax, corporation tax, and succession duties. Although the Federal Government has offered to collect the personal and corporation taxes on behalf of the Provinces without any charge, you have indicated that your Government is not interested in this offer and will collect the taxes it chooses to impose.

You are aware that the Federal Government is withdrawing to an ever greater degree from the personal income tax field in favour of the Provinces.

In 1956, the then Federal Government, of which you were a leading member, considered 10 per cent of the yield from the personal income tax to be an adequate provincial share. At the instance of the present Federal Government, this provincial share was raised in 1958 to 13 per cent. Under the proposed new arrangements, it will rise next year to 16 per cent and by a further 1 per cent each year thereafter until, in the final year of the 5-year period, it will aggregate 20 per cent. Thus the provincial share will then be exactly double what was considered an adequate provincial share by the previous government for the present 5-year period.

I note, also, that the further proposals of the Federal Government in relation to the logging-profits tax and the tax on public utilities engaged in the distribution of energy commend themselves to you. The Provinces will undoubtedly derive substantial additional benefits from these proposals of the Federal Government.

CORPORATION TAX

Your reference to the special corporation income tax abatement under the 1960 legislation is worthy of special mention. As Quebec chose to be a prescribed province in pursuance of Section 9A of the Federal-Provincial Tax Sharing Arrangements Act for last year and this year, the federal corporation income tax payers in the Province received an abatement of 1 per cent in addition to the normal 9 per cent, making a total of 10 per cent.

The provision under Section 40(1) of the Income Tax Act, for an additional abatement of 1 per cent

(Over)