

*Dominion—Provincial Relations*

so far been available to Manitoba of its possible 1958-59 tax arrangement revenues have in fact been based on 1957 tax information, not on projected 1958 data, and that the actual payments to be made to the province next year, therefore, may well differ substantially from these estimated figures. We would have preferred to receive a more definite estimate, of the tax-sharing arrangement payments the province could expect next year, but can certainly appreciate your reluctance at this stage to take any particular forecasts or projections respecting these payments.

You indicated in your letter that for the purposes of your own estimates, you were using the figures for the tax-sharing arrangement payments that were tabled in the House of Commons—the figures based on 1957 tax information. At the same time, however, you have recognized, as we do, that “there very well may be substantial differences when these payments are finally determined”. The possible magnitude of those differences is of course what we in the provinces must keep in mind in our planning for next year.

Therefore, while we do appreciate that perhaps in view of this uncertainty in the present situation it might not be well for the federal government to issue to the provinces any definite forecasts of their respective tax arrangement payments in the coming fiscal year, we are hopeful that you and your officials will be able to assist us in preparing our own forecast figures. You will recall that in our letter of February 17, 1958, we mentioned that we had estimated that if corporate profits were to drop by 20 per cent in 1958 the 13-9-50 formula in 1958-59 might produce for Manitoba not \$35,755,000, but \$32,250,000. In arriving at this estimate the following three basic assumptions were made:

(1) that there would be no change in any of the provinces in the standard individual income tax yields and standard succession duty yields from 1957 to 1958, assuming, of course, that the standard tax rates will be adjusted in accordance with the provisions of the tax-sharing arrangements to compensate for the tax changes introduced since 1956.

(2) that there would be no change in the population of any of the provinces from June 1, 1957, to June 1, 1958. We realize that this assumption has no real foundation in fact, but are willing to use the 1957 figures in our computations for the time being, recognizing that the 1958 figures that will be available next summer will require certain changes to be made in our early estimates.

(3) that the level of corporate profits would drop by 20 per cent from 1957 to 1958 and that the standard tax yields from this field would drop by the same percentage.

On the basis of these assumptions and applying the 13-9-50 formula, we estimated a 1958-59 tax arrangement payment to Manitoba of \$32,250,000.

While recognizing that our first and second assumptions may not be entirely accurate, we are prepared to go along with them in our calculations. The one very real area of doubt in our minds, however, centres around the third assumption. Here we have assumed, essentially, that a drop in corporate profits would be reflected immediately in a similar drop in standard tax yields, and have made no allowance for any delay or “lag” that for all we know may very well occur between the time profit levels are established and the time they are reflected in corporate tax collections. If such a lag does occur, it should be taken into account in our calculations as it could significantly affect the size of the payments to a province in any given year.

You will readily appreciate that by ourselves we would find it difficult if not impossible to arrive at any sound estimates of this kind. We just do not have access to the information that would be required to enable us to make this kind of projection. The federal government, however, which collects these taxes and deals with these matters day by day is in a much more knowledgeable position in this regard—and we are therefore looking to you and your officials as the only people in Canada who can estimate for us, with any degree of accuracy, the probable effect on tax collections of a specified reduction in the level of corporate profits.

Would you, therefore, please verify for us the accuracy of our computation of the tax arrangement payment that would be made to Manitoba in 1958-59 if the 13-9-50 formula is applied, and the following assumptions are made:

(1) that there would be no change in any of the provinces in the standard individual income tax yields and standard succession duty yields from 1957 to 1958.

(2) that there would be no change in the population of any of the provinces from June 1, 1957, to June 1, 1958.

(3) that the level of corporate profits would drop by 20 per cent from 1957 to 1958 and that the standard tax yields from this field would drop by the same percentage.

In other words, if we are prepared to make these assumptions, are we correct in estimating that the 13-9-50 formula would yield to Manitoba in the coming year \$32,250,000?

Secondly, if the tax collection experience of the Department of National Revenue should indicate that there is a lag between