

Dominion—Provincial Relations

our view that steps should be taken immediately to correct this situation, and we therefore strongly urge that the federal government at the first opportunity amend the Federal-Provincial Tax-Sharing Arrangements Act to enable the 13-9-50 formula to apply in the determination of the stabilization payments for 1958-59 as well as in the determination of the rental and equalization payments for that year, so that the present inconsistency in the arrangements will be eliminated and the high relative measure of protection formerly enjoyed by the provinces under the arrangements will be restored to them.

Yours very truly,
Chas. E. Greenlay,
Provincial Treasurer.

MINISTER OF FINANCE
Canada

Ottawa, March 6, 1958.

The Honourable Charles S. Greenlay,
Provincial Treasurer,
Province of Manitoba,
Winnipeg, Manitoba.

Dear Mr. Greenlay:

I have your letter of March 4 and while there is little of substance that I can add to my earlier remarks, I appreciate your dilemma and will do all in my power to assist you. You will appreciate, of course, that anything at this stage that deals with future levels of income is purely conjectural. This, as I said before, is one of the big difficulties with the use of current figures in determining payments under the existing fiscal arrangements.

You have asked me to confirm that if you make certain basic assumptions, the yield to Manitoba in 1958/59 will be \$32,250,000. This is substantially correct. The question, however, could be asked whether or not the basic assumptions are supportable.

As far as standard individual income taxes are concerned, there does not seem any likelihood of any substantial change from present levels. Therefore your assumption may be assumed to be essentially correct. Standard succession duty estimates are on a three year average at the present time and I think some small increase might be anticipated, but this is of no great significance.

Your second assumption is that there would be no change in the population of any of the provinces from 1957 to 1958. Inasmuch as the equalization payments depend on per capita levels of standard taxes and as there has been a tendency for Manitoba's population to increase at a somewhat slower rate than Ontario's and British Columbia's, this

assumption could lead to errors. As a reasonable estimate of population in 1958 could be made on the basis of the same rate of change as between the previous two years, I think this might be given consideration.

Your estimate on the level of corporate profits is that they 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. A drop of 20 per cent would reflect a more serious curtailment of business activity than is now forecast. While estimates are very tentative at this stage, they do indicate a drop in profits but not of this size. Something in the neighbourhood of 5 per cent would currently seem more probable, although in view of the volatile nature of profits this could easily change either way during the year.

It is very difficult to give a concise answer to the question of the reflection of profit levels on collections. By the regulations, a seven months' lag is provided for in calculating payments under the Federal Provincial Tax-Sharing Arrangements Act and it would seem probable that this would adequately care for any lag of the nature to which you refer. In our preliminary payments, of course, this does not apply directly, but we attempt to give consideration to this factor in determining payments. I believe, therefore, that this lag factor could be largely ignored, in view of the tentative nature of the data with which we must work at the present time.

As to individual income tax in relation to personal income, I think collections are largely consistent with changes, both on account of the payroll deduction methods and due to the fact that a lag for collections from the taxation year has been provided here as well as for corporation taxes, in this case, of three months.

Again I regret my inability to give you more accurate information but in a tax-sharing arrangement such as this, I am faced with the same difficulties as you are in forecasting revenue. I am glad, however, to provide what assistance I can.

Yours very truly,
Donald M. Fleming.

PROVINCE OF MANITOBA
Department of Provincial Treasurer
Office of The Minister
Winnipeg

March 4, 1958.

Hon. Donald M. Fleming,
Minister of Finance,
Ottawa, Canada.

Dear Mr. Fleming:

Thank you for your letter of February 20, 1958, confirming that the estimates that have