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A NEW OFFER TO THE PROVINCES

The following is the text of a letter that Prime Minister Diefenbaker sent to each of the ten premiers of Canada on June 16:

"At the Dominion-Provincial Conference of February 23 and 24, 1961, I presented certain proposals with respect to the financial arrangements which might exist between Canada and the provinces for the five-year period commencing April 1, 1962. The major aspects of these proposals were that we should discontinue the present system of tax rentals in favour of tax collection arrangements, that the Federal Government would leave considerably more tax room for the provinces by withdrawing substantially in the personal income tax and that a broader system of equalization should be adopted which would give greater weight to fiscal need, particularly when considered in conjunction with the proposal to increase substantially the Atlantic Provinces Adjustment Grants and to continue for a further five years the special payment of \$8 million per annum to Newfoundland.

"The above proposals were discussed at the Dominion-Provincial Conference of February 23-24. Since that time they have been discussed intensively by officials at two meetings of the Continuing Committee on Fiscal and Economic Matters. The Federal Government has given very careful consideration to all the points raised and the purpose of my letter is to acquaint you with the conclusions we have reached.

TAX COLLECTION AGREEMENTS

"In changing from a tax rental to a tax collection system of agreements, the first question to settle is

the type of tax collection agreements which can be adopted to put the new system into effect. Under the system proposed, the provinces will levy their own personal income and corporation income taxes. The Department of Justice has given intensive consideration to the possibility of devising agreements which would enable the Department of National Revenue to provide the tax collection service for those provinces which wished it without having to resort to provincial courts. If this could have been achieved, it would have greatly simplified the task of the Department of National Revenue. However, it is the opinion of the Department of Justice that any arrangement which attempted to provide for the enforcement of the provincial taxes otherwise than through the provincial courts would be of doubtful constitutional validity. This means that the only type of tax collection agreement which can be safely entered into between the provinces and Canada is one in which the Federal Government will act as the agent of the province for the purpose of collecting the tax imposed by the province. The fact that an agency system of agreements must be entered into will complicate the work of the Department of National Revenue and will make it necessary to exercise extreme care in defining the relationship between the federal and provincial taxes.

PERSONAL INCOME LEVY

"A second important question has been raised involving the relationship between the federal and provincial taxes on personal income. Two possibili-

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