

APPENDIX

LETTER DATED JUNE 7, 1978 FROM QUEBEC MINISTER OF FINANCE
TO FEDERAL MINISTER OF FINANCEGOVERNMENT OF QUEBEC
MINISTRY OF FINANCE
OFFICE OF THE MINISTER

Quebec, June 7, 1978

Honorable Jean Chrétien,
Minister of Finance,
Government of Canada,
Ottawa, Ontario

Dear Sir:

Since your budget speech of April 10 last, we have had several opportunities to explain the point of view of our respective governments concerning the federal proposal on the provincial sales tax reduction. Following our exchange of correspondence and our discussions, it seems clear that our governments disagree about the formula for the sales tax reduction in Quebec and that it would be useless to seek a formula other than the one which was approved by the Quebec government and supported unanimously by the National Assembly.

The Government of Canada recognizes the principle that the decision of a province not to take part in a federal program should not result in a financial loss for the taxpayers of that province. Your government therefore accepts to pay to Quebec in one form or another the federal contribution originally offered in its provincial sales tax reduction proposal, which amounts to \$226 million. Recognition of this principle should have led to a settlement between our two governments. You have not accepted that. I believe our disagreement on this matter has gone on long enough and time has come to settle the terms of payment of the federal contribution. In this regard, I would like to submit to you a three-part proposal which includes the various elements of solution suggested in recent weeks.

First, the federal government will pay to the government of Quebec, in this fiscal year, a financial contribution of some \$40 million representing the equivalent of a two-point sales tax reduction for a six-month period on clothing, footwear, tex-

tiles, furniture and hotel accommodation, all this pursuant to the commitment you made in your letters of last April 21 and May 15.

Second, if you do not intend to amend Bill C-56, the government of Quebec will take the necessary action to recover a global amount equivalent to the sum which otherwise would have been paid to the province by the federal government. However, should the federal government choose to amend Bill C-56 and pay the balance of \$186 million through a personal income tax reduction at the end of the 1978 fiscal year, the government of Quebec might consider recovering that amount through a special tax equivalent to the federal rebate. In the absence of any fiscal collection agreement, the government of Quebec would collect that tax itself. To facilitate its collection and ensure that in any case it will be no higher than the federal tax reduction our respective Departments of Revenue should agree on the administrative conditions governing that fiscal arrangement. Those conditions would concern particularly the provisions of our respective laws and formulas as well as the appropriate controls.

Last, the government of Quebec would be reimbursed the amount representing the interest on the loan it would contract in the absence of any fiscal collection agreement. Indeed, should Bill C-56 be amended as suggested above, unlike the other provinces the government of Quebec would have to wait until the next fiscal year to recover the federal rebate at the time of filing of income tax returns for the 1978 taxation year.

I hope that this proposal represents an acceptable solution as concerns the terms of payment of the amount of \$226 million which must be paid to the province of Quebec one way or another, as you have recognized yourself.

Sincerely yours,

The Minister,
Jacques Parizeau