

Copy  
Translation

Office of the Prime Minister  
Canada

Ottawa, January 14, 1955

The Honourable Maurice L. Duplessis, Q.C.,  
Premier of the Province of Quebec,  
Parliament Buildings,  
Quebec, Que.

My dear Premier:

Since receiving your letter of November 1st, my Colleagues and I have considered at length the problem raised by the Quebec income tax and by the fact that the taxpayers having to pay it remain subject also to the federal tax.

This is, of course, an inevitable consequence of two jurisdictions exercising their concurrent rights to tax the incomes of the same persons. The only way you suggested to avoid the effect of double taxation upon the taxpayers of Quebec is for us to deduct from the federal tax on the income of each individual an amount equivalent to the amount which he is required to pay as the provincial tax.

In your letter, you state that the provincial tax "represents only approximately 10 per cent of the federal tax on personal income collected in the Province of Quebec because, even though our provincial tax is apparently calculated to be 15 per cent of the federal tax, the exemptions provided by the provincial law materially reduce this proportion". In this quotation from your letter, you refer to two different aspects of the provincial law. When you state that the Quebec tax represents approximately 10 per cent of the federal tax you compare the yield of the provincial tax to the amount produced by the federal tax in the Province of Quebec.

When you say that your tax "is apparently calculated to be 15 per cent of the federal tax", you explain this percentage by referring to the scale of exemptions granted by your law. This scale is such that it does not subject to your tax all the Quebec taxpayers who are obliged to pay the federal tax. In order to obtain an amount corresponding to 10 per cent of the amount yielded by the federal tax, it has been necessary to fix, for those who have to pay your tax, a higher rate than if you had distributed the burden over all those we tax.

Provincial legislatures have, like the federal Parliament, the right and the responsibility to distribute the burden of their taxes on their taxpayers in whatever way seems most appropriate to them. This is a right and a responsibility which is the same for

all provinces, and none of them can be compelled to conform with the course of action followed elsewhere. Whatever differences there may be in the rules adopted by the different provinces, the federal law must be the same everywhere and it must be such as to leave the federal government with the revenues needed to fulfil its national responsibilities.

At present the federal law allows every Canadian taxpayer having to pay a provincial personal income tax to claim a deduction up to 5 per cent of his federal tax. This method of deduction raises certain administrative difficulties and, what is more serious, it makes the real incidence of the provincial tax depend on the terms of the federal law and makes the total amount deducted from the federal tax depend on the terms of the provincial law. Instead of deducting the provincial tax from the federal tax, we intend to propose to Parliament a reduction of the federal tax for all taxpayers of a province having a provincial tax, whether or not they have to pay the provincial tax. Thus, the taxpayers of such a province will receive the benefit of the total amount of the reduction in the federal tax and the federal and provincial authorities will be able to determine, independently of one another, in what way and to what extent their taxpayers will be subjected to their respective taxes.

The 5 per cent deduction allowed at present by the federal law was fixed in 1946. Since that time, two changes have occurred. In the first place the rates of the federal tax have been reduced with the result that there has been a corresponding reduction in the amount represented by the 5 per cent. In addition, the tax rentals paid by the federal Government to the provinces under the tax agreements have been rising as a consequence of the increase in the population and in the national product.

Pending the results of a new federal-provincial conference, we propose therefore to ask Parliament to amend the federal income tax law in order to grant a reduction of 10 per cent to all taxpayers of any province where a provincial income tax is levied whether or not all these taxpayers have to pay the provincial tax. We will recommend that this amendment apply to the years 1955 and 1956. At the same time, we will ask Parliament to release from its present agreement any province which would prefer this new arrangement and I am immediately so informing the other Premiers.

Moreover, we feel it would be reasonable to make the new percentage apply to taxpayers who have been in fact subjected to