

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 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.

Moreover, we feel it would be reasonable to make the new percentage apply to taxpayers who have been in fact subjected to two taxes on their 1954 income. We intend, therefore, to propose that income taxpayers who will have paid a provincial tax for 1954 be allowed a deduction up to 10 per cent of their federal tax.

I shall be glad to know at your convenience whether your government would wish to be released from the tax rental agreement in order to take advantage of the proposed new arrangement for 1955 and 1956.

It had always been understood that it would be necessary to hold a federal-provincial conference before the end of 1955 to discuss fiscal arrangements for the years which will follow the present tax rental agreements. In the light of recent developments it might be the desire of the provincial governments to have this conference held at an earlier date.

I shall accordingly communicate with you again shortly after my return from the commonwealth prime ministers' meeting in London towards the middle of February with a view to working out arrangements for a conference at a time which will be satisfactory to all governments concerned.

Yours sincerely,

(Sgd.) LOUIS S. ST. LAURENT