

than a general tax on profits, the federal government in determining the taxable income of a corporation would not allow as an expense provincial corporation taxes on that corporation up to 9 per cent of its taxable income or up to the general rate of corporate income tax levied by the provincial government, whichever is the greater. Where the total provincial corporation taxes paid by a corporation exceed such level, such excess would be allowed as an expense to the corporation. The cost to the federal treasury of allowing such excess as a corporate expense would be deducted from any payments due to the provincial government arising out of these proposals.

6. The standard rates proposed are:

(a) On personal incomes, 10 per cent of the federal tax under the Income Tax Act (i.e. excluding the Old Age Security Tax);

(b) On corporations, 9 per cent of the taxable income deemed to be earned in the province;

(c) On successions, 50 per cent of the federal duty. (In calculating equalization payments, it is proposed to average the yield of succession duties over a period of three years.)

7. In calculating equalization payments, stabilization payments or rental payments under numbered paragraphs 1, 2 and 3, the standard rates of personal income tax and succession duty would be adjusted upward or downward each year, if necessary, in order to offset any future changes in either the rates of tax or personal exemptions resulting from future amendments to the Income Tax Act or the Succession Duty Act.

We propose that these arrangements be for a period of five years commencing April 1, 1957.

These proposals provide revenues to the provinces somewhat greater than those available under the present tax-rental system; they provide for revenues increasing with the growth and expansion of our country; and they guarantee a measure of stability in this sector of provincial revenues more effectively than do the present arrangements.

They also make it possible for any provincial government so desiring to secure these revenues in these tax fields without the necessity of imposing and collecting its own taxes.

It would, I think, be useful to have our committee of officials meet as early in February as possible to clarify the technical details of these proposals.

I would be glad to hear from you in due course.

Yours sincerely,
(Sgd.) LOUIS S. ST-LAURENT

(Similar letter sent to all Provinces)

OFFICE OF THE PRIME MINISTER

OTTAWA, DECEMBER 5, 1955.

My dear Premier:

My colleagues and I have been considering changes in the draft unemployment assistance agreement proposed by a number of provinces in earlier correspondence and in discussions held with federal officials during the week of October 3rd. We have now approved a revised draft agreement, two copies of which I am enclosing with this letter.

In revising the draft agreement, we have sought to meet all the points raised by provincial representatives in so far as they would help to assure all provinces, with their wide variety of institutions and procedures for providing relief, an equal measure of federal participation.

In all cases where changes have been made it will be noted that the revised text offers somewhat more favourable terms to the provinces than was the case in the original draft of last August. No change is contemplated in the formula designed to meet the special situation in Nova Scotia as set forth in my letter to you of August 26th.

The attached agreement was drafted in such a manner that it may be given effect from July 1st, 1955, or whatever later date may be preferred by each provincial government. In the event your government decides to enter into an agreement on the basis of this revised draft, would you please arrange to have both the attached copies signed or initialled by your appropriate Minister and returned to the Minister of National Health and Welfare for completion on behalf of the federal government and one of the copies will then be returned to you for your records. Before sending the signed or initialled copies to Mr. Martin, paragraph 17 should, of course, be completed to indicate whether you wish the agreement to come into force on July 1st, 1955, or at some later date, and also whether the agreement with your province is to run for a term certain of five years or some lesser period.

Following completion of the agreement, the appropriate officers of the federal government will work out with the officials of whatever department you may designate the detailed administrative procedures for the submission of monthly reimbursement claims, beginning with the month in which the agreement takes effect. Federal authority to make the actual reimbursement payments will, of course, have to await the passage of legislation at the next session of Parliament beginning January 10th, 1956.

Yours sincerely,
LOUIS S. ST-LAURENT.