

Dominion—Provincial Relations

the establishment of profit levels and their reflection in federal tax collections, what change should we make in our \$32,250,000 estimate to take account of this lag?

I should like to emphasize that we are not now asking that you or your officials make any estimates whatsoever in connection with the forecasting of the 1958-59 tax arrangement payments to Manitoba. We are prepared to make our own estimates, recognizing that in the absence of a certain amount of relevant data they may not perhaps be as accurate as might be desirable. We would, however, appreciate your assistance in verifying the accuracy of the calculations we have made on the basis of the assumptions we have stated in this letter, and in resolving for us the one area of doubt that we have mentioned as being of particular concern to us: the significance of the lag factor in corporate standard tax yield determination.

You will note that we have not specifically asked for information respecting the effect of the lag factor in the individual income tax field, because it is our view that in this field it would have relatively little significance. The payroll-deduction method of tax prepayment would probably tend to keep collections fairly well in line with income levels. Your comments on this point, however, would also be appreciated.

Yours very truly,
Chas. E. Greenlay
Provincial Treasurer.

MINISTER OF FINANCE
Canada

Ottawa, February 20, 1958.

The Honourable Charles E. Greenlay,
Provincial Treasurer,
Province of Manitoba,
Winnipeg, Manitoba.

Dear Mr. Greenlay:

As you point out in your letter of February 17, the data placed in *Hansard* on January 27 to illustrate the effect of the amendments to the tax-sharing formula was based on 1957 tax information. You will appreciate the necessity of this for at this time of year it is not possible to give any estimate of tax revenues for the 1958 tax year that would be valid for your purposes.

You mention that under the tax rental agreements estimates of probable payments were made available about this time of year. This is correct, but there was an essential difference that made this possible. Under the tax rental agreements payments were based on the gross national product and population of the previous year, for which there were

reliable estimates. Under the Federal-Provincial Tax-Sharing Arrangements Act payments are based on the current year for which even preliminary estimates are not yet available. This necessitates the use of data of the earlier period and the procedure is outlined in the agreements and the regulations. I think I should point out that the difficulty in giving reliable estimates was emphasized on more than one occasion during the course of negotiations but the provinces preferred to accept this in order to have the final payments on as current a basis as possible.

There are, of course, very real problems in making estimates on the basis of the earlier year, for as you point out, changes in the level of corporate profits and personal incomes could have a noticeable effect on payments, especially when taken in conjunction with population changes. It is for this very reason I am most reluctant to make any forecasts at this stage. I may say that for the purposes of my own estimates I have used the figures based on 1957-58, i.e., those used for illustration in the House of Commons, accepting the fact that there very well may be substantial differences when these payments are finally determined.

As to your first two questions, I do not think it would be proper for me to attempt to indicate what your estimates should be for 1958-59, for the reasons I have stated.

On the third question, the stabilization at 95 per cent is on the basis of actual payments for the year 1957-58 and is not affected by any amendments to the standard rate of individual income tax recently made. Section 5(4)(a) of the act was not amended.

I am sorry that I cannot be of greater assistance to you in making up this estimate of revenue but the use of current figures involves this difficulty, a fact of which all participants in the agreements were fully aware at the time this method was decided upon. I am sure you will understand and appreciate my position in this matter.

Yours very truly,
Donald M. Fleming.

PROVINCE OF MANITOBA
Department of Provincial Treasurer
Office of the Minister
Winnipeg

February 17, 1958.

Honourable D. M. Fleming, Q.C., M.P.,
Minister of Finance,
Ottawa, Canada.

Dear Mr. Fleming:

We have been following with great interest the proposed and now actual changes in the Federal-Provincial Tax-Sharing Agreements Act. We have noted that, as an illustration