

(See p. 8):

## APPENDIX

Letter forwarded by the Prime Minister to all provincial Premiers with respect to federal-provincial fiscal arrangements; letter and draft agreement respecting unemployment assistance; and agreement between the Government of Canada and Trans-Canada Pipe Lines Limited respecting the construction of the Trans-Canada pipe line, as well as correspondence on this matter between the Right Honourable C. D. Howe, Minister of Trade and Commerce, and the Honourable Dana Porter, Treasurer of the Province of Ontario.

*Similar letters sent to the Premiers of all the provinces.*

*The letter to the Premier of Quebec was in the French language.*

OFFICE OF THE PRIME MINISTER  
CANADA

Ottawa, January 6, 1956.

My Dear Premier:

At the opening session of our October Conference, I put forward certain general ideas which the federal government believed would form a reasonable basis for a revised approach to the question of federal-provincial fiscal arrangements. These ideas were further elaborated in our sessions in camera, with some statistical illustrations of how they might operate.

We discussed these suggestions at some length at the Conference and the general consensus seemed to be that they were worth careful study. We did not expect, nor did we ask the provincial governments to commit themselves on these principles at the Conference, but at the closing session, I invited them to send in further comments or observations after they had had time for further consideration.

Since the Conference I have received formal communications from four provincial governments and there have been informal exchanges of views with other provinces, both between Ministers and officials; all of these have been carefully considered.

The federal government is now prepared to make a definite proposal and to recommend to Parliament that appropriate legislation be passed along the following lines:

1. The federal government would make unconditional tax equalization payments to the provinces. In brief, these annual equalization payments would bring the combined per capita yield of certain standard taxes applied to the personal income tax field, the corporate tax

field and the succession duty field up to the level of the average per capita yield of these taxes in the two provinces which have the highest per capita combined yields in these three fields. These equalization payments would be paid during each fiscal year commencing April 1, 1957, and would be calculated on the basis of the tax and population figures for the preceding taxation year.

2. During the currency of these arrangements, the federal government would also pay to each provincial government each year any amount required to bring the total yield of these standard taxes, plus the equalization payment, up to the highest of:

(a) the tax rental paid or available to the provincial government in respect of the year ending March 31, 1957, increased by an amount proportionate to any increase in population of the province, from June 1, 1956 to June 1 of the taxation year in respect of which the equalization payment is made; or (b) in the fiscal year 1958-59, 90 per cent of the standard tax yield plus equalization and stabilization payments, if any, in 1957-58, and in subsequent years, 90 per cent of the average standard tax yield plus equalization and stabilization payments, if any, in the two preceding years.

3. Where a provincial government undertakes not to impose or permit its municipalities to impose taxes in the personal income tax fields, or the corporation tax field or the succession duty field, the federal government would pay to such provincial government each year an amount equal to the yield of the standard tax in that field in that province.

4. Where a provincial government prefers to impose and collect its own taxes in any of these three fields at whatever rates it chooses, the federal government would abate the rate of federal tax in that field in that province by the standard rate.

5. Where a provincial government chooses to impose and collect corporation taxes, other