

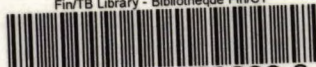
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FEDERAL-PROVINCIAL FISCAL RELATIONS IN CANADA

AN OVERVIEW

DEPARTMENT OF FINANCE
OTTAWA
SEPTEMBER 8, 1975

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Historical Summary

The Canadian Federation was established in 1867 by means of the British North America Act, a statute of the Parliament of Great Britain. This Act, as amended, constitutes the Canadian Constitution. It provides for a division of powers and responsibilities between the federal government and the provinces. In the raising of revenues, the federal government has unlimited taxing authority while provincial governments are restricted to direct taxation only. On the expenditure side, generally, the provinces have jurisdiction over education, health, welfare, natural resources, land use, and all local or municipal government. The federal government has responsibility for national defence, external affairs, foreign trade, interprovincial trade, currency and coinage, chartered banking, the central bank, and unemployment insurance. In addition, there is joint jurisdiction in several areas such as agriculture and fisheries. Federal and provincial governments also have what is referred to as a general spending power, whereby they may pay out moneys to other levels of government for expenditures in areas not within their jurisdiction. This power has led, among other things, to federal initiatives to establish shared cost programs in provincial areas such as health, welfare and education.

The federal government, during the first fifty years of federation derived its revenues almost exclusively from customs and excise duties. During World War I, however, the federal government stepped into the field of direct taxation with the introduction of a personal income tax in 1917. In 1921 a general sales tax - collected from manufacturers, wholesalers and importers - was initiated.

The provinces for their part were not given access to any source of revenue which was recognized to be of major importance in 1867, except for property taxes which were levied at the municipal level. In the 19th century their revenues from own sources came primarily from miscellaneous levies on business and from various types of resource levy. After 1890, however, there was a concerted move into the field of succession duties. There was a very limited use of income taxes but, in fact, this type of tax was much more extensively used at the municipal level. Municipal revenues were, therefore, much larger than provincial revenues and this situation continued well into the 20th century.

After the first World War, however, the provinces began to be confronted for the first time with a major share of expenditures for public transportation - in the form of highways to service automobiles. They also faced growing demands in areas such as health, welfare, education and public utilities. At the same time, they began to derive revenues from major new sources - gasoline, motor vehicle registration and the vending of alcohol through government monopolies. The provinces did not move significantly into the fields of income tax and sales tax until the 1930's.

The 1930's and the great depression brought about an increasing overlap of federal and provincial taxing activity. This all led to what is now referred to as the "tax jungle" of the 1930's. Provinces competed with each other and with the federal government for tax revenue, much of which was raised through utilization of the same base. This placed a heavy burden on business activity and did nothing to solve the economic problems of the depression. The Royal Commission on Dominion-Provincial Relations which was established in 1937 to investigate the problems of relationships, financial and otherwise, between the central government and the provinces, spoke of this era in its report published in 1940.

"The impact on the constitutional framework of the exigencies of public finance during the depression added greatly to the confusion and inefficiency of the Canadian taxation system. The joint occupation by the dominion and the provinces of the progressive tax field led in the one case to inadequate use and in the other to wasteful duplication. As a consequence, far too great a proportion of the load of government expenditures was carried by regressive consumption taxes, by real estate taxes, and by economically harmful taxes on corporations and business."

The outbreak of war and the resulting high level of public expenditures and need for production brought an abrupt end to the depression in North America. It also led to a new period in federal-provincial fiscal relations, a period which has evolved into present day arrangements.

In 1941, the Wartime Tax Agreements were established as a wartime measure in which the provinces agreed to rent their income tax and succession duty fields to the federal government for the duration of the war in return for a specified annual rental payment based on actual receipts from these taxes in the year ending in December 1940. These agreements expired in 1946 but were renewed in progressively different forms for three further periods of five years each. The tax rental era, as it is known, involved the same rental principle although the federal rental payments from 1947 to 1957 were placed on a per capita basis with a GNP escalation factor. For the years 1957 to 1962 these payments were based for the first time on tax yields. The standard yields used were 10% of federal income tax (increased to 13% for years 1958 to 1962), 9% of corporate taxable income, and 50% of succession duties. In addition, separate unconditional equalization payments were introduced during this period and these became the forerunner of the present day equalization program. All provinces participated in these agreements except Quebec. Ontario,

which did not participate from 1947 to 1952, rented its personal and corporate income tax from 1952 to 1957, and rented only its personal income tax from 1957 to 1962.

This era in federal-provincial fiscal relationships established several important tax-sharing concepts with respect to the income tax fields. These were:

- (1) The concept of uniform federal and provincial definitions of taxable income and uniform progressivity;
- (2) The concept of common rules of allocating tax between provinces where the taxpayer has earned income in more than one province during the taxation year;
- (3) The establishment of the concept of implicit equalization through per capita rental payments, followed by explicit unconditional equalization payments, in order to bring the revenues of poor provinces up to some minimum standard; and
- (4) The concept of fixed tax shares with the federal government abating, or reducing its tax by a specific percentage in order to leave room for the provinces.

The tax rental period ended in 1962 and was replaced by a system of tax collection agreements under which the federal government collects income taxes for participating provinces free of charge and at rates of their own choosing. All provinces except Quebec continued to participate and the concept of uniformity of tax structure was retained. This has been a rather remarkable feat because major revisions were made in the federal income tax structure in 1972, including the introduction of a capital gains tax. These changes were discussed in advance at great length with the provinces and the discussions influenced the exact nature of the changes in several important respects. The concept of fixed tax shares of personal income tax for each level of government which was implicit under the abatement system was removed and the provincial personal income taxes are now expressed as a direct percentage of the federal tax (federal basic tax) rather than as a per cent of a national federal tax to which an abatement for provincial tax was applied).

While the above summary takes account of the tax relationships between the federal and provincial governments during the first hundred years of the Canadian federation, there were important developments of a non-tax nature which occurred during this time as well. It seemed to be recognized from the beginning that certain subsidies would be paid to the provinces "in consideration of the transfer to the General Parliament of the powers of taxation". Specific subsidies from the federal government to the provinces were set out in the British North America Act. These were revised somewhat during the first years of the federation to reflect financial problems in the Maritime provinces and have continued to be

paid annually although the amounts are now insignificant. Of greater importance was the growth of conditional grants for specific purposes and the payment of special assistance grants to provinces during the depression. While the latter were discontinued following the introduction of the wartime and tax rental agreements, conditional grants and shared cost programs continued to expand to become an integral part of federal-provincial financial relations. Many such arrangements are now in existence and involve the transfer of some \$5.5 billion annually from the federal government to provincial and local levels of governments. The major programs of this nature have been set out in detail below under a separate tab.

Present Arrangements

Current federal-provincial fiscal arrangements are based on three main cornerstones; tax collection-agreements, revenue equalization, and shared-cost programs.

Under the tax collection agreements, the federal government collects, free of charge, personal and corporate income taxes imposed under provincial law. Nine provinces (all but Quebec) participate in these agreements. However, in the case of Ontario, the agreement applies only to the personal income tax. To simplify administration, the provinces are required to adopt income tax legislation and regulations similar to those of the federal government. The federal legislation, however, is flexible enough that tax credits can be given against provincial income tax through federal collection machinery. The fee for tax credit administration is 1 per cent of tax credits and such credits are presently administered for Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.

The provincial rates of taxation are established by provincial legislation and the provinces are free to change these rates at the beginning or mid-point of each calendar year provided the federal government is given advance notice of such changes. Payments to the provinces are generally made by instalments, at specified monthly intervals and are adjusted during the year as more accurate information on receipts becomes available. Final adjusting payments or recoveries are made when the actual data become available.

One of the major benefits of the Tax Collection Agreements has been the existence of a uniform system of determining the province of residence of persons subject to personal income tax, and a uniform system of allocating the

taxable income of corporations operating in more than one province. Even in those cases in Ontario and Quebec where the province collects its own taxes, it is the case that the tax laws of the provinces are quite similar to the federal laws and common rules for the allocation of business income have been worked out and accepted by the provinces. In this way double taxation has been avoided.

Linked somewhat to the Tax Collection Agreements is the Provincial Income Tax Revenue Guarantee Program which is described in more detail below under a separate tab. Essentially this program, which was brought in during the federal income tax reform in 1972, was designed to induce provinces to change their tax legislation in keeping with the changes to the federal law.

The revenue equalization program provides unconditional federal grants to those provinces whose fiscal capacity is below the national average in order to allow those provinces to provide an adequate level of public services without having to resort to excessively high levels of taxation. A detailed description of this program which presently involves the transfer of some \$2 billion annually is included below under a separate tab.

The shared-cost programs are the third main area of present arrangements. Their purpose is to help the provinces bear the costs of programs, particularly where the maintenance of a certain level of service is deemed to be in the national interest. While such shared-cost arrangements exist with the provinces in many areas of expenditure, the major programs relating to health, post-secondary education and welfare have also been set out in detail under a separate tab below.

Summary

The present federal-provincial fiscal arrangements in Canada are the result of the evolution of the Canadian federal system over the past hundred years. They involve, among other things an income tax collection system and the annual transfer, conditional and unconditional, of large sums of money from the federal government to the provinces and, in certain cases, municipalities. In addition, the arrangements provide for a revenue stabilization program (see separate tab below for details) which gives to each province an unconditional guarantee against year to year loss of revenue resulting from a downturn in the regional or national economy. Table I on page 7 summarizes, by province, the extent of federal contributions to the provinces for the fiscal year 1973-74.

These federal-provincial fiscal arrangements have proved successful in ensuring all provinces, and particularly those with less revenue raising potential, of an adequate level of revenue to enable them to carry out their constitutional obligations and responsibilities. This is illustrated in tables II to VI which show that while there are large differences in gross provincial revenue per capita from own sources, intergovernmental transfer payments place the provinces in such a position that these differences are not reflected in their per capita expenditures.

Moreover, the framework provided by these arrangements will, over time, continue to serve as a foundation upon which future arrangements can be built and adapted to changing circumstances in keeping with the long established principle of federal-provincial revenue sharing in Canada.

We trust that this presentation will be helpful to you in your understanding of federal-provincial fiscal arrangements in Canada.

TABLE I

Summary of Federal Contributions to the Provinces

1973-74

(Thousands of Dollars)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total</u>
A. Unconditional Grants											
1. Statutory Subsidies	9,708	659	2,174	1,774	4,484	5,504	2,149	2,116	3,102	2,117	33,787
2. Equalization	156,049	34,840	189,599	143,803	688,445	-	123,241	164,143	-	-	1,500,120
3. Estate Tax Adjustment	-70	-35	-1,028	101	-105	1,479	-114	166	-286	-	108
4. Revenue Guarantee	809	197	-	1,222	14,981	22,266	3,947	2,275	5,180	1,677	42,554
5. Sharing of 1971 Undistributed Income on Hand	84	-	309	150	338	992	306	96	512	322	3,109
6. Share of Income tax on Certain Public Utilities	1,922	390	202	5	2,357	12,538	451	16	6,085	1,930	25,696
7. Share of Oil Export Tax	-	-	-	-	-	-	1,184	15,737	122,087	4,301	143,309
Subtotal	168,502	36,051	191,256	147,055	700,500	42,779	131,164	184,549	136,680	10,347	1,748,883
B. Conditional Grants											
1. Health											
a) Medicine	16,710	3,547	24,832	20,064	185,385	243,341	31,185	27,712	52,700	70,697	676,173
b) Hospital Insurance	34,561	6,911	53,245	43,252	429,916*	530,048	73,925	60,212	119,764	140,276	1,492,110
c) Other	9,850	21	77	463	11,069	10,713	1,996	1,343	3,453	165	39,150
Total Health	61,121	10,479	78,154	63,779	626,370	784,102	107,106	89,267	175,917	211,138	2,207,433
2. Welfare											
a) Canada Assistance Plan	24,669	5,134	17,718	30,101	319,215*	207,272	37,895	35,354	52,656	83,340	823,354
b) Other	1,378	98	683	2,184	1,669*	6,884	1,920	884	2,480	617	18,797
Total Welfare	26,047	5,232	28,401	32,285	320,884	214,156	39,815	36,238	55,136	83,957	842,151
3. Supervision and Development of Regions and Localities											
4. Education	12,731	13,364	6,198	16,018	72,091	7,412	7,292	2,641	5,383	3,854	146,984
5. Natural Resources	201	189	-	-	225	119	15	319	-	29	1,097
6. Agriculture, Trade, Industry and Tourism	615	239	350	176	2,214	2,271	2,225	6,893	3,973	1,364	20,370
7. Environment	-	-	-	-	-	1,520	-	-	-	-	1,520
8. Recreation and Culture	194	184	801	6,561	52,607	24,094	2,086	630	943	1,029	89,129
9. General Government	-	1	3	806	-	20	2,169	-	35	-	3,234
10. Protection of Property	84	103	123	79	828	2,197	272	167	350	608	4,811
11. Transportation and Communications	-	-	7	-	-	100	125	418	-	-	630
12. Labour and Employment and Immigration	-	46	10	6	127	130	20	105	108	-	552
13. Research Establishments	-	-	84	64	-	73	-	92	87	87	487
Subtotal	100,993	29,837	116,131	119,774	1,075,346	1,036,194	161,325	136,980	241,932	302,066	3,318,378
C. Contributions for the Benefit of Provincial Institutions											
1. Post-Secondary Education**											
Cash Transfer	5,443	916	22,486	7,317	196,070	153,637	17,699	13,820	54,670	13,083	485,141
Tax Transfer	6,267	1,191	12,772	8,888	133,991	248,849	20,073	13,632	41,954	64,929	552,546
Total Post-Secondary Education	11,710	2,107	35,258	16,205	330,061	402,486	37,772	27,452	96,624	78,012	1,037,687
2. Grants to Municipalities and Provinces in Lieu of Taxes on Federal Property											
Subtotal	418	156	5,143	702	14,447	27,379	4,255	1,722	3,523	5,001	62,748
Subtotal	12,128	2,263	40,403	16,907	344,508	429,865	42,027	29,174	100,147	83,013	1,100,435
0. Total (A + B + C)	281,623	68,151	345,790	283,736	2,120,354	1,508,838	334,516	350,703	478,759	395,426	6,167,896

*Denotes programs where "contracting-out" has occurred in whole or in part. For the purpose of comparison the federal contribution including the tax abatement has been shown.

**The contribution takes the form of (a) a federal personal income tax abatement of 4.357 points and a federal corporation income tax abatement of 1 point, (b) where applicable, the equalization arising from those tax points and (c) a cash transfer equivalent to the eligible contributions less the value of the tax points abated and the associated equalization.

TABLE II

REVENUES BY LEVEL OF GOVERNMENT, BEFORE AND AFTER INTERGOVERNMENTAL TRANSFERS, NATIONAL ACCOUNTS BASIS, 1945 TO 1974

Year	Revenues from Own Sources			Total Govt. Revenues \$000'000	Revenues after Inter-Governmental Transfers			Percentage Distribution of Revenues from Own Sources			Percentage Distribution of Revenues After Intergovernmental Transfers		
	Federal \$000'000	Provincial \$000'000	Local \$000'000		Federal \$000'000	Provincial \$000'000	Local \$000'000	Federal %	Provincial %	Local %	Federal %	Provincial %	Local %
1945	2,350	503	369	3,222	2,274	523	425	72.9	15.6	11.4	70.6	16.2	13.2
1946	2,518	582	390	3,490	2,421	607	462	72.2	16.7	11.2	69.4	17.4	13.2
1947	2,653	736	426	3,815	2,541	754	520	69.5	19.3	11.2	66.6	19.8	13.6
1948	2,631	826	472	3,929	2,517	820	592	67.0	21.0	12.0	64.1	20.9	15.1
1949	2,605	866	509	3,980	2,458	866	656	65.5	21.8	12.8	61.8	21.8	16.5
1950	2,913	952	568	4,433	2,711	993	729	65.7	21.5	12.8	61.2	22.4	16.4
1951	4,047	1,114	644	5,805	3,840	1,135	830	69.7	19.2	11.1	66.1	19.6	14.3
1952	4,421	1,239	737	6,397	4,248	1,207	942	69.1	19.4	11.5	66.4	18.9	14.7
1953	4,488	1,327	800	6,615	4,322	1,263	1,030	67.9	20.1	12.1	65.3	19.1	15.6
1954	4,267	1,393	866	6,526	4,101	1,313	1,112	65.4	21.4	13.3	62.8	20.1	17.0
1955	4,663	1,540	935	7,138	4,476	1,415	1,247	65.3	21.6	13.1	62.7	19.8	17.5
1956	5,323	1,740	1,068	8,131	5,125	1,585	1,421	65.5	21.4	13.1	63.0	19.5	17.5
1957	5,362	1,946	1,194	8,502	5,058	1,810	1,634	63.1	22.9	14.0	59.5	21.3	19.2
1958	5,065	2,084	1,315	8,464	4,648	1,950	1,866	59.8	24.6	15.5	54.9	23.0	22.0
1959	5,767	2,346	1,499	9,612	5,155	2,336	2,121	60.0	24.4	15.6	53.6	24.3	22.1
1960	6,117	2,475	1,653	10,245	5,412	2,451	2,382	59.7	24.2	16.1	52.8	23.9	23.3
1961	6,356	2,704	1,770	10,830	5,534	2,667	2,629	58.7	25.0	16.4	51.1	24.6	24.3
1962	6,775	3,224	1,913	11,912	5,721	3,186	3,005	56.9	27.1	16.1	48.0	26.7	25.2
1963	7,191	3,446	2,036	12,673	6,022	3,432	3,219	56.7	27.2	16.1	47.5	27.1	25.4
1964	8,216	3,978	2,128	14,322	6,964	3,906	3,452	57.4	27.8	14.8	48.6	27.3	24.1
1965	8,944	4,696	2,347	15,987	7,513	4,635	3,839	55.9	29.4	14.7	47.0	29.0	24.0
1966	9,817	5,494	2,620	17,931	8,153	5,327	4,451	54.8	30.6	14.6	45.5	29.7	24.8
1967	10,727	6,482	2,934	20,143	8,735	6,408	5,000	53.2	32.2	14.6	43.4	31.8	24.8
1968	12,027	7,647	3,265	22,939	9,655	7,705	5,579	52.4	33.4	14.2	42.1	33.6	24.3
1969	14,277	8,936	3,617	26,830	11,551	9,113	6,166	53.2	33.3	13.5	43.1	34.0	23.0
1970	15,296	10,153	3,938	29,387	11,899	10,402	7,086	52.1	34.5	13.4	40.5	35.4	24.1
1971	17,003	11,325	4,182	32,510	12,680	12,109	7,721	52.3	34.8	12.9	39.0	37.2	23.7
1972	19,143	12,770	4,448	36,361	14,585	13,320	8,456	52.6	35.1	12.2	40.1	36.6	23.3
1973	22,139	14,950	4,696	41,785	17,332	15,317	9,136	53.0	35.8	11.2	41.5	36.7	21.9
1974	29,050	18,217	4,924	52,191	22,902	19,212	10,077	55.7	34.9	9.4	43.9	36.8	19.3
Excl. Oil Export Tax	1973	22,056	14,950	4,696	41,702			52.9	35.8	11.3			
Excl. Oil Export Tax	1974	27,433	18,217	4,924	50,574			54.2	36.0	9.7			

Note: The estimated amount of federal tax rental payments to the provinces, for the years 1945 to 1962, are shown as provincial revenues from own sources. In the published national accounts they appear as federal revenues and also as a federal-provincial transfer.

Source: Statistics Canada, National Income and Expenditure Accounts subject to adjustments for tax rental payments and for the Oil Export Tax.

TABLE III

EXPENDITURES, BY LEVEL OF GOVERNMENT, BEFORE AND AFTER INTERGOVERNMENTAL TRANSFERS, NATIONAL ACCOUNTS BASIS, 1945-1974

Year	Initial Expenditures			Total Govt. Expen- ditures	Final Expenditures			Percentage Distribution of Initial Expenditures			Percentage Distribution of Final Expenditures		
	Federal	Provincial	Local		Federal	Provincial	Local	Federal	Provincial	Local	Federal	Provincial	Local
	\$000'000	\$000'000	\$000'000		\$000'000	\$000'000	\$000'000	\$000'000	%	%	%	%	%
1945	4,182	411	320	4,913	4,106	431	376	85.1	8.4	6.5	83.6	8.8	7.7
1946	2,763	489	375	3,627	2,666	514	447	76.2	13.5	10.3	73.5	14.2	12.3
1947	1,966	641	445	3,052	1,854	659	539	64.4	21.0	14.6	60.7	21.6	17.7
1948	1,866	811	530	3,207	1,752	805	650	58.2	25.3	16.5	54.6	25.1	20.3
1949	2,121	924	592	3,637	1,974	924	739	58.3	25.4	16.3	54.3	25.4	20.3
1950	2,263	956	660	3,879	2,061	997	821	58.3	24.6	17.0	53.1	25.7	21.2
1951	3,076	1,110	793	4,979	2,869	1,131	979	61.8	22.3	15.9	57.6	22.7	19.7
1952	4,226	1,178	936	6,340	4,053	1,146	1,141	66.7	18.6	14.8	63.9	18.1	18.0
1953	4,337	1,220	975	6,532	4,171	1,156	1,205	66.4	18.7	14.9	63.9	17.7	18.4
1954	4,313	1,340	1,145	6,798	4,147	1,260	1,391	63.4	19.7	16.8	61.0	18.5	20.5
1955	4,461	1,512	1,205	7,178	4,274	1,387	1,517	62.1	21.1	16.8	59.5	19.3	21.1
1956	4,725	1,784	1,350	7,859	4,527	1,629	1,703	60.1	22.7	17.2	57.6	20.7	21.7
1957	5,112	1,930	1,479	8,521	4,808	1,794	1,919	60.0	22.6	17.4	56.4	21.1	22.5
1958	5,832	2,134	1,576	9,542	5,415	2,000	2,127	61.1	22.4	16.5	56.7	21.0	22.3
1959	6,106	2,359	1,748	10,213	5,494	2,349	2,370	59.8	23.1	17.1	53.8	23.0	23.2
1960	6,346	2,688	1,881	10,915	5,641	2,664	2,610	58.1	24.6	17.2	51.7	24.4	23.9
1961	6,766	2,985	1,898	11,649	5,944	2,948	2,757	58.1	25.6	16.3	51.0	25.3	23.7
1962	7,282	3,280	2,048	12,610	6,228	3,242	3,140	57.7	26.0	16.2	49.4	25.7	24.9
1963	7,477	3,545	2,234	13,256	6,308	3,531	3,417	56.4	26.7	16.9	47.6	26.6	25.8
1964	7,871	4,059	2,269	14,199	6,619	3,987	3,593	55.4	28.6	16.0	46.6	28.1	25.3
1965	8,400	4,696	2,714	15,810	6,969	4,635	4,206	53.1	29.7	17.2	44.1	29.3	26.6
1966	9,586	5,668	2,947	18,201	7,922	5,501	4,778	52.7	31.1	16.2	43.5	30.2	26.3
1967	10,811	6,816	3,271	20,898	8,819	6,742	5,337	51.7	32.6	15.7	42.2	32.3	25.5
1968	12,038	7,703	3,701	23,442	9,666	7,761	6,015	51.4	32.9	15.8	41.2	33.1	25.7
1969	13,256	8,617	4,159	26,032	10,530	8,794	6,708	50.9	33.1	16.0	40.5	33.8	25.8
1970	15,030	10,382	4,408	29,820	11,633	10,631	7,556	50.4	34.8	14.8	39.0	35.7	25.3
1971	17,140	11,786	4,733	33,659	12,817	12,570	8,272	50.9	35.0	14.1	38.1	37.3	24.6
1972	19,845	13,378	4,896	38,119	15,287	13,928	8,904	52.1	35.1	12.8	40.1	36.5	23.4
1973	22,096	15,120	5,416	42,632	17,289	15,487	9,856	51.8	35.5	12.7	40.6	36.3	23.1
1974	28,364	17,768	6,275	52,407	22,216	18,763	11,428	54.1	33.9	12.0	42.4	35.8	21.8

ote: "Initial expenditures" of a government consist of its current expenditures, less that portion of current expenditures which is financed by transfer payments from another government, less capital consumption allowances, plus gross capital formation.

"Final expenditures" of a government consist of its "initial expenditures", plus transfers received from other governments, less transfers paid to other governments.

Transfer payments exclude estimated rental payments by the federal government during the period 1945-1962 when the Tax Rental Agreements were in operation. The rental payments have also been deducted from the current expenditures of the federal government and added to the current expenditures of provincial governments in order to be consistent with the treatment of revenues.

Source Statistics Canada, National Income and Expenditure Accounts.

TABLE IV

PROVINCIAL GROSS GENERAL REVENUE PER CAPITA FROM OWN SOURCES

	<u>NFLD.</u>	<u>PEI</u>	<u>N.S.</u>	<u>N.B.</u>	<u>QUE.</u>	<u>ONT.</u>	<u>MAN.</u>	<u>SASK.</u>	<u>ALTA</u>	<u>B.C.</u>	<u>TOTAL TEN PROVINCES*</u>
1974-75 ⁽¹⁾	577	618	559	575	838	867	676	671	1,067	863	862
1973-74 ⁽¹⁾	445	541	485	523	799	748	562	558	781	707	719
1972-73	423	504	459	495	739	656	569	497	700	696	657
1971-72	360	416	383	434	635	591	472	420	609	619	576
1970-71	320	343	346	390	561	572	460	411	563	560	534
1969-70	250	272	295	329	410	497	394	395	510	516	446

* Excluding Northwest Territories and the Yukon

(1) Estimates

Source: Provincial Government Finance: Cat. #68-207

TABLE V

TRANSFERS PER CAPITA RECEIVED BY THE PROVINCES

	<u>NFLD.</u>	<u>PEI</u>	<u>N.S.</u>	<u>N.B.</u>	<u>QUE.</u>	<u>ONT.</u>	<u>MAN.</u>	<u>SASK.</u>	<u>ALTA</u>	<u>B.C.</u>	<u>TOTAL TEN PROVINCES*</u>
1974-75 ⁽¹⁾	641	743	489	547	296	168	325	322	212	163	257
1973-74 ⁽¹⁾	549	625	387	441	234	158	288	321	180	140	220
1972-73	464	505	332	381	208	157	276	299	179	140	205
1971-72	482	462	320	363	214	143	246	271	181	143	199
1970-71	376	430	252	305	183	128	213	190	151	128	169
1959-70	341	339	252	262	116	101	162	131	140	100	130

* Excluding Northwest Territories and the Yukon

(1) Estimates

Source: Provincial Government Finance: 68-207

TABLE VI

PROVINCIAL-LOCAL GROSS GENERAL EXPENDITURES PER CAPITA AFTER ELIMINATION OF
INTERGOVERNMENTAL TRANSFERS

	<u>NFLD.</u>	<u>PEI</u>	<u>N.S.</u>	<u>N.B.</u>	<u>QUE.</u>	<u>ONT.</u>	<u>MAN.</u>	<u>SASK.</u>	<u>ALTA</u>	<u>B.C.</u>	Weighted Average for 7 Equal- ization- Receiving Provinces	Weighted Average for 3 Non- Receiving Provinces	Weighted Average for all 10 Provinces
1973-74	1,195	1,202	1,091	1,100	1,289	1,259	1,200	1,151	1,358	1,170	1,234	1,256	1,246
1972-73	1,080	1,042	948	950	1,121	1,096	985	1,034	1,198	1,014	1,072	1,095	1,084
1971-72	1,088	977	889	877	1,057	1,091	932	910	1,132	951	1,007	1,070	1,041
1969-70	672	707	721	637	749	846	713	739	919	789	731	846	791
1967-68	642	560	546	555	623	642	546	646	733	609	608	649	629

NOTES:

Calculations are based upon published data of Statistics Canada, preliminary for 1972-73 and 1973-74. Owing to the way in which preliminary data are compiled the results for these two years will tend to be slightly low for all provinces.

The provinces which do not receive equalization are Ontario, Alberta and B.C.

DESCRIPTION OF EQUALIZATION PROGRAM

Purpose of Equalization

The purpose of equalization is to make it possible for provinces with tax bases of below-average productivity to provide reasonable standards of public services without having to resort to levels of taxation which are above the average of all provinces.

In order to meet this objective, calculations are made - based upon the revenues which each province would derive from taxes imposed at average provincial rates applied to its own bases. To the extent that such revenues for any province on a per capita basis are below the average of all provinces, an entitlement to equalization arises, equal to the amount of the per capita shortfall multiplied by the population of the province. Payments are made unconditionally.

There are a number of public misconceptions about equalization. One of these is that the objectives of equalization could be met by making payments to individuals rather than to governments. This, however, assumes that equalization is concerned with the individual's supply of private goods such as food, clothing and shelter whereas, in fact, it is concerned with his supply of public goods such as education, health, transportation, etc. Another misconception about equalization is that the program is paid for by the wealthy provinces, or their taxpayers. This is not the case; the program is financed by federal taxes which are paid by taxpayers living in all parts of the country.

Perhaps the most common misconception about equalization is that it results in the direct equalization of revenues themselves. This appears to account for views such as "a province cannot raise its income tax because it will lower its equalization" or "a province gets more equalization in respect of natural resource revenues because it does not tax them". The truth, of course, is that unless one refers to the unusual case of a revenue source where a poor province is above the national average per capita tax base, the poor province will increase its equalization by raising a tax rate and decrease its equalization by lowering it.

The calculation of equalization is extremely complex because of the difficulties in making comparisons between provinces with respect to their capacity to raise revenues from taxation and tax-related sources. Measures which are used to compare revenue-raising capacities are frequently referred to as "measures of fiscal capacity". They may also be referred to as "tax bases" or, as in the case of the Fiscal Arrangements legislation, as "revenue bases".

Elements of an Equalization Formula

The essential elements of any equalization formula are these:

- (a) the equalization standard,
- (b) the revenues to be equalized,
- (c) whether and how such revenues are classified into revenue sources,
- (d) the tax bases used for comparing the capacities of the several provinces to derive revenues from each revenue source, and
- (e) the common denominator, (customarily population) used for comparing provinces of different size.

The Present Equalization Formula

In the present legislation (Part I of the Federal-Provincial Fiscal Arrangements Act, 1972, as amended in 1973) the above elements are dealt with as follows:

- (a) the standard is the "national average", or more precisely, the weighted average of the ten provinces.
- (b) the revenues to be equalized are a broad range of provincial-local revenues which consist of (i) provincial taxation revenues of all kinds, (ii) nearly all other revenues which the provinces derive from their own sources, (iii) taxation revenues imposed by the federal government and shared with the provinces, and (iv) school purpose taxes (essentially property taxes) levied by local government.
- (c) the revenues to be equalized are classified into 20 relatively homogeneous groups, for each of which the provinces' relative capacities to derive revenues can be estimated by means of a tax base. In the legislation these are referred to as "revenue sources".
- (d) 20 separate tax bases are derived, one for each group of revenues, in each case consisting of either the actual base of the tax or some proxy therefor which would have a similar provincial distribution.
- (e) the unit for comparing provinces of different size is total provincial population.

Bill C-57, approved by Parliament in July, 1975, has modified the definition of revenues to be equalized. Effective with 1974-75, the oil and gas revenues to be equalized consist of all "basic revenues" plus one-third of "additional revenues". Basic revenues are defined as oil and gas revenues that are not attributable to the international oil disturbance of 1973-74. Additional revenues are defined as oil and gas revenues that are attributable to the disturbance, i.e., to higher prices and higher levels of taxation, but not to any increases in production which might occur. Bill C-57 also provides for a regrouping of oil and gas revenues into new revenue sources, as a result of which the total number of revenue sources increases from 20 to 22. Corresponding changes in the revenue bases are being made through amendments to Part I of the Federal-Provincial Fiscal Arrangements Regulations, 1972.

The program, as amended in 1973 and 1975, runs to the end of the 1976-77 fiscal year on March 31, 1977. The Minister of Finance has indicated that the program will be renewed in one form or another, following consultations with the provinces.

Illustration of Calculation of Equalization

Assumptions

All provinces collectively derive \$6 billion from personal income tax during given fiscal year.

Given province has 3 per cent of total provincial population.

Given province has 2 per cent of total provincial capacity to derive revenues from the personal income tax.

Equalization Entitlement of Given Province for
Given Fiscal Year in respect of Personal Income Tax

$$\begin{aligned} \text{Equalization to given province} &= \left[\begin{array}{l} \text{Total revenues} \\ \text{of all provinces} \\ \text{from personal} \\ \text{income tax} \end{array} \right] \left[\begin{array}{l} \text{Given province's} \\ \text{share of total} \\ \text{population} \end{array} \right] \left[\begin{array}{l} \text{Given province's} \\ \text{share of total} \\ \text{provincial} \\ \text{capacity to} \\ \text{derive revenues} \\ \text{from personal} \\ \text{income tax} \end{array} \right] \\ &= \$6 \text{ billion } \left[\frac{3\% - 2\%}{1\%} \right] \\ &= \$6 \text{ billion } \left[\frac{1\%}{1\%} \right] \\ &= \$60 \text{ million} \end{aligned}$$

The total equalization entitlement of the given province will be equal to the sum of 22 similar calculations, one for each of the 22 revenue sources into which revenues are divided for purposes of equalization. In the event that the given province has a higher share of fiscal capacity than of population for some particular revenue source (which would mean that it is above the national average per capita standard of equalization) its equalization for that revenue source will be negative. In arriving at total equalization payable to any given province, the amount of any negative entitlements must be subtracted from positive entitlements.

If the above illustration is examined, two important conclusions stand out. First, the portion of the \$6 billion in revenues which is raised by the given province is not an element of the calculation. Second, if the given province - or indeed any province - raises its level of taxation the result will be that total revenues subject to equalization will increase, and the equalization entitlement of the given province will increase correspondingly. Hence, if the given province raises its personal income tax the result will be to raise (slightly) its own equalization and not lower it, as commonly believed. The opposite, of course, holds true if the given province - or any other province - reduces its rate of personal income taxation.

Tables

A table showing equalization payments by province and year is attached.

EQUALIZATION PAYMENTS BY PROVINCE, 1957-58 TO 1975-76
(in thousands of dollars)

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>	<u>Total</u>
<u>1957 Fiscal Arrangements</u>											
1957-58	11,823	3,089	17,188	8,631	46,342	-	14,220	20,314	11,981	5,522	139,110
1958-59	20,131	5,561	26,258	22,641	63,275	-	13,495	20,389	13,407	6,704	191,861
1959-60	22,142	5,964	27,906	24,640	78,106	-	14,795	23,530	16,385	5,885	219,353
1960-61	20,255	5,561	25,913	23,975	69,874	-	13,349	21,904	15,357	6,052	202,240
1961-62	20,961	5,369	26,294	24,111	72,682	-	13,420	23,296	14,278	5,571	205,982
<u>1962 Fiscal Arrangements</u>											
1962-63	24,012	6,931	29,117	25,518	68,773	-	13,705	22,895	12,319	-	203,270
1963-64	23,779	7,201	31,290	26,999	65,311	-	12,920	21,868	7,137	-	196,505
1964-65	27,061	8,111	37,668	33,048	96,121	-	18,694	22,002	1,190	-	243,895
1965-66	34,926	9,490	43,786	39,857	133,115	-	27,250	29,206	-	-	317,630
1966-67	39,191	10,451	47,902	44,214	151,343	-	30,500	31,407	-	-	355,008
<u>1967 Fiscal Arrangements</u>											
1967-68	65,677	14,189	75,095	63,566	268,715	-	39,925	25,141	-	-	552,308
1968-69	73,162	16,250	83,990	71,804	386,584	-	49,319	26,424	-	-	707,533
1969-70	95,680	19,506	96,796	87,950	430,682	-	52,597	66,111	-	-	849,322
1970-71	97,288	19,927	99,479	93,086	420,101	-	54,735	98,966	-	-	883,582
1971-72	105,235	19,971	107,614	92,975	453,288	-	71,954	88,771	-	-	939,808
<u>1972 Fiscal Arrangements</u>											
1972-73	114,353	25,316	123,263	104,132	531,640	-	67,713	102,703	-	-	1,069,120
1973-74	155,354	33,944	187,059	148,922	719,914	-	111,021	117,553	-	-	1,473,767
1974-75 (Sept. Estimate)	182,337	41,267	208,545	177,992	903,156	-	118,577	100,868	-	-	1,732,742
1975-76 (June Estimate)	198,562	47,214	255,615	206,819	972,825	-	133,973	91,521	-	-	1,906,529

- NOTES:
- (1) The payments in this table consist of payments described in successive fiscal arrangements statutes as "equalization" (including transitional guarantees for Quebec, Manitoba, Saskatchewan and Alberta from 1962-63 to 1964-65 and for Saskatchewan in 1967-68) plus the Atlantic Provinces Adjustment Grants. Payments for the years 1967-68 to 1974-75 include amounts in respect of tax points abated for post-secondary education.
 - (2) The amounts shown are equalization entitlements for the year shown at the left irrespective of when paid. All adjustment payments are therefore attributed to the year for which the revenues are equalized.
 - (3) The amounts shown for the years 1957-58 to 1972-73 are final. 1973-74, 1974-75 and 1975-76 are subject to adjustments.
 - (4) While the payments are grouped by quinquennial arrangement, there were mid-period changes in (a) 1958-59 (when the Atlantic Provinces Adjustment Grants were started), (b) in 1964-65 when the standard of equalization was raised from national average to top two provinces but natural resource revenues were dropped as a positive element of equalization, and (c) in 1973-74 when "school purpose taxes" were added. A proposal to modify equalization in respect of oil and gas revenues, commencing with 1974-75, is presently before Parliament. This proposal has been built into the Main Estimate for 1975-76.

July 8, 1975.

Shared - Cost Programs

The following material is intended to provide some indication of the breadth and scope of federal-provincial shared - cost programs in Canada. Most of these programs are well-established and collectively constitute an important facet of federal-provincial fiscal relations. The major programs are in the areas of health, education and welfare and these are described in some detail. It is current federal policy not to introduce new, major shared - cost programs unless a provincial consensus favours their establishment.

Health

The major federal-provincial shared - cost programs in the health care field are those relating to Hospital Insurance and Medicare.

1. Hospital Insurance

The federal government, under the Hospital Insurance and Diagnostic Services Act of 1957, shares the cost of providing hospital services with the provinces. The federal government contributes to each province the sum of 25% of the national average per capita cost of such services plus 25% of the average per capita cost of the services in that province, multiplied by the number of insured persons in the province. Hence, the total contribution is about 50% of the shareable cost for all Canada, but the proportion of federal support is higher in provinces where the per capita cost is below the national average and lower in the other provinces. The following table indicates the various dates on which the provinces began to participate in the program.

Newfoundland	July 1, 1958
Prince Edward Island	October 1, 1959
Nova Scotia	January 1, 1959
New Brunswick	July 1, 1959
Quebec	January 1, 1961
Ontario	January 1, 1959
Manitoba	July 1, 1958
Saskatchewan	July 1, 1958
Alberta	July 1, 1958
British Columbia	July 1, 1958
Yukon	July 1, 1960
Northwest Territories	April 1, 1960

On January 1, 1965, Quebec accepted a federal offer made to all provinces and "contracted out" of this program (along with certain others) under the Established Programs (Interim Arrangements) Act. Although the total amount of federal contributions to Quebec was unaffected, these contributions took the form of a combination of a tax abatement plus adjustment payments or recoveries.

Under the federal-provincial agreements, the provinces must provide a certain range of insured in-patient services. These include accommodation, meal, necessary nursing service, diagnostic procedures, pharmaceuticals, the use of operating room anaesthesia facilities, and the use of radiotherapy and physiotherapy if available. A wide range of out-patient services is also included. Specifically excluded are tuberculosis hospitals and sanatoria, hospitals or institutions for the mentally ill, and institutions providing custodial care, such as nursing homes and homes for the aged.

Federal contributions to the provinces under the Hospital Insurance and Diagnostic Services Act for the period 1973-74 to 1975-76 are indicated in the following table.

	<u>\$000.000</u>	<u>% Increase</u>
1973-74	1,570	17.0
1974-75	1,972	25.6
1975-76	2,337	18.5

The following table indicates federal contributions by province during the current fiscal year.

	<u>\$000</u>	<u>% Increase</u>
Newfoundland	52,856	20.2
Prince Edward Island	10,266	19.2
Nova Scotia	78,911	18.1
New Brunswick	64,319	18.2
Quebec	630,288	15.3
Ontario	864,448	18.6
Manitoba	107,093	20.0
Saskatchewan	92,019	18.4
Alberta	187,212	24.1
British Columbia	244,135	21.9
Yukon	1,590	16.2
Northwest Territories	4,028	27.0
Canada	<u>2,337,165</u>	18.5

In the federal Budget of June 23, 1975, notice of the federal intention to terminate the present agreements with the provinces at the end of a five-year period was given. The purpose of this measure was to facilitate the development of more flexible and less costly arrangements for the financing of hospital care in Canada. It is not the federal intention to abandon its role in the hospital care field.

2. Medicare

Under the Medical Care Act of 1966, the federal government contributes to the provinces approximately half of the cost of providing medical care insurance plans. The federal government contributes to each province 50% of the per capita cost of all insured services furnished under the plans of all provinces, multiplied by the number of insured persons in that province. The following table indicates the various dates on which the provinces began to participate in the program.

Newfoundland	April 1, 1969
Prince Edward Island	December 1, 1970
Nova Scotia	April 1, 1969
New Brunswick	January 1, 1970
Quebec	March 1, 1970
Ontario	October 1, 1969
Manitoba	April 1, 1969
Saskatchewan	July 1, 1968
Alberta	July 1, 1969
British Columbia	July 1, 1968
Yukon	April 1, 1972
Northwest Territories	April 1, 1971

Shareable costs cover all necessary medical services rendered to insured persons by medical practitioners except any services that a person is entitled to under any other federal or provincial Act. Although certain operations by dental surgeons in hospitals are also cost-shareable, dental care in general is not cost shareable.

Federal contributions under the Medical Care Act for the period 1973-74 to 1975-76 are indicated in the following table.

	<u>\$000</u>	<u>% Increase</u>
Newfoundland	20,515	16.3
Prince Edward Island	4,409	17.0
Nova Scotia	30,343	16.3
New Brunswick	25,148	16.9
Quebec	230,745	15.7
Ontario	308,022	16.9
Manitoba	38,526	15.3
Saskatchewan	34,191	
Alberta	65,730	17.5
British Columbia	92,597	18.4
Yukon	755	17.4
Northwest Territories	1,405	16.9
Canada	<u>852,386</u>	16.6

In the federal Budget of June 23, 1975, it was announced that ceilings on federal contributions to the provinces for Medicare would be established for 1976-77 and subsequent years. The purpose of this measure was to cap what would otherwise be an open-ended program and to encourage more efficient use of medical resources. The ceilings will limit federal contributions to maximum increases of 14.5% in 1976-77, 12% in 1977-78 and 10% in 1978-79 and subsequent years.

Education

Under Part VI of the Federal-Provincial Fiscal Arrangements Act, 1972, the federal government makes a substantial contribution to the provinces for the financing of post-secondary education in Canada. These arrangements originally came into effect in 1967 for the period 1967-1972; they were then extended for the period 1972-1974 and subsequently further extended for the period 1974-1977. In the current fiscal year, the federal contribution or "provincial entitlement" will come to more than \$1.4 billion. Of this \$1.4 billion, \$914 million is in the form of a tax transfer or "income tax offset"; the remaining \$494 million is in the form of direct cash transfers or "adjustment payments". These amounts are determined in the following ways:

(1) The "provincial entitlement" is equal to 50% of the eligible operating costs of post-secondary educational institutions subject to these two provisions: (a) no province receives less than \$15 per capita (1967 population) escalated by the national rate of increase in eligible operating costs. (Three provinces are paid under this provision: Newfoundland, Prince Edward Island, and New Brunswick). This provision was part of the original, 1967 arrangements. (b) The "provincial entitlement" in any given fiscal year may not exceed 115% of the immediately preceding fiscal year. This provision was introduced in 1972.

(2) The "income tax offset" consists of a federal tax reduction in favour of each province of 4.357 points of personal income tax and 1 point of corporate income tax. (The original, 1967 federal tax reduction was 4 points of personal and 1 point of corporate tax; under the new tax system which came into effect in 1972, 4.357 points of personal income tax is equivalent to the 4 former points.) The value of these tax points is equalized to the national average.

(3) The "adjustment payments", which are simply the difference between the "provincial entitlement" and the "income tax offset" are paid to the provinces by the Department of the Secretary of State.

Federal contributions to the provinces for post-secondary education for the period 1973-73 to 1975-76 are indicated in the following table.

	<u>Tax</u>	<u>Cash</u> (\$'000.000)	<u>Total</u>	<u>% Increase</u>
1973-74	610	547	1,066	8.1
1974-75	727	498	1,226	15.0
1975-76	916	493	1,410	15.0

The following table indicates federal contributions for post-secondary education by province during the current fiscal year.

	<u>Tax</u>	<u>Cash</u> (\$'000,000)	<u>Total</u>	<u>% Increase</u>
Newfoundland	19.82	5.52	25.34	15.1
Prince Edward Island	4.37	1.15	5.52	15.0
Nova Scotia	29.52	20.48	50.00	15.0
New Brunswick	24.73	6.69	31.42	15.0
Quebec	222.05	219.22	441.27	15.1
Ontario	360.44	170.05	530.49	15.0
Manitoba	36.47	19.37	55.84	13.4
Saskatchewan	35.37	10.69	46.06	15.1
Alberta	79.36	39.47	118.83	15.0
British Columbia	<u>104.51</u>	<u>1.33</u>	<u>105.84</u>	15.1
Canada	<u>916.64</u>	<u>493.97</u>	<u>1,410.61</u>	15.0

The present arrangements expire on March 31, 1977 and will be renegotiated by the federal government and the provinces before that date.

Welfare

The Canada Assistance Plan provides a single administrative framework for the federal government to share with the provinces the costs of assistance and of certain health and welfare services for persons in need.

The Canada Assistance Plan authorizes the federal government to assume 50 per cent of the costs of assistance to persons in need and of improving or extending welfare services. It covers payments to employable and unemployable persons in need, costs of maintenance of needy persons in homes for special care, such as nursing homes or homes for the aged, and costs of supplementary assistance to needy recipients of old age security pensions, blind persons' allowances, disabled persons' allowances and unemployment insurance benefits. It also extends federal sharing to: assistance to needy mothers with dependent children; maintenance of children in the care of provincially-approved child welfare agencies; health care services to needy persons; and the extension of welfare services designed to prevent and remove the causes of poverty and to assist persons receiving assistance to achieve the greatest possible degree of self-support.

The provinces have the option of maintaining a separate administration for blind persons' and disabled persons' allowances or of amalgamating these with their general programs where costs are shared under the Canada Assistance Plan. Accordingly, a number of provinces no longer accept applications under these categorical programs, although the programs remain in effect to cover allowances for a residual group of recipients not eligible for transfer to the general program.

The only eligibility requirement under the Canada Assistance Plan legislation is that of need, regardless of its cause and without reference to the applicant's employment status. Need is determined by a means test which takes into account the applicant's employment status and his income and resources. Previous residence in the province may not be required as a condition of eligibility of assistance or for continued assistance. Rates of assistance and conditions of aid are set by the provinces but maximum amounts are not set. The resulting flexibility enables the province to adjust rates to local conditions and to take into account the needs of special groups by providing a differential in benefits or conditions of eligibility.

The province may opt for an agreement whereby the federal government pays 50 per cent of the costs of work projects aimed at preparing a person in need for the labour market. Under another agreement, it pays more than 50 per cent for provincial welfare services to Indians on reserves, Crown lands or in unorganized territory.

Federal contributions to the provinces under the Canada Assistance Plan for the period 1973-74 to 1975-76 are given in the table below.

	<u>\$000,000</u>
1973-74	823
1974-75	1,056
1975-76	1,157

The following table indicates federal contributions by province for the current fiscal year.

	<u>\$000,000</u>
Newfoundland	36.9
Prince Edward Island	6.8
Nova Scotia	31.5
New Brunswick	37.9
Quebec	461.4
Ontario	295.8
Manitoba	46.1
Saskatchewan	42.3
Alberta	79.7
British Columbia	118.8
Canada	<u>1,157.0</u>

The social security system in Canada is under review by the federal and provincial governments.

Other

There is a large number of other federal-provincial shared - cost programs, most of which are small by comparison with the major programs in the areas of health, education and welfare. The following

table, based on the last year for which Public Accounts data are available, provides some indication of range and diversity of these programs. A detailed description of these programs is available in the Inventory of Federal-Provincial Joint Activities and Shared - Cost Programs prepared by the Federal-Provincial Relations Office. (For further information write to this office at 48 Sparks Street, Ottawa, Ontario, K1A 0A3.)

TABLE I

Summary of Federal Contributions to the Provinces

1973-74

(Thousands of Dollars)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. Unconditional Grants											
1. Statutory Subsidies	9,708	659	2,174	1,774	4,484	5,504	2,149	2,116	3,102	2,117	33,787
2. Equalization	156,049	34,840	189,599	143,803	688,445	-	123,241	164,143	-	-	1,500,120
3. Estate Tax Adjustment	-70	-35	-1,028	101	-105	1,479	-114	166	-286	-	108
4. Revenue Guarantee	809	197	-	1,222	4,981	22,266	3,947	2,275	5,180	1,677	42,554
5. Sharing of 1971 Undistributed Income on Hand	84	-	309	150	338	992	306	96	512	322	3,109
6. Share of Income tax on Certain Public Utilities	1,922	390	202	5	2,357	12,538	451	16	6,085	1,930	25,896
7. Share of Oil Export Tax	-	-	-	-	-	-	1,184	15,737	122,087	4,301	143,309
Subtotal	168,502	36,051	191,256	147,055	700,500	42,779	131,164	184,549	136,680	10,347	1,748,883
B. Conditional Grants											
1. Health											
a) Medicare	16,710	3,547	24,832	20,064	185,385	243,341	31,185	27,712	52,700	70,697	676,173
b) Hospital Insurance	34,561	6,911	53,245	43,252	429,916*	530,048	73,925	60,212	119,764	140,276	1,492,110
c) Other	9,850	21	77	463	11,069	10,713	1,996	1,343	3,453	165	39,150
Total Health	61,121	10,479	78,154	63,779	626,370	784,102	107,106	89,267	175,917	211,138	2,207,433
2. Welfare											
a) Canada Assistance Plan	24,669	5,134	27,718	30,101	319,215*	207,272	37,895	35,354	52,656	83,340	823,354
b) Other	1,378	98	683	2,184	1,669*	6,884	1,920	884	2,480	617	18,797
Total Welfare	26,047	5,232	28,401	32,285	320,884	214,156	39,815	36,238	55,136	83,957	842,151
3. Supervision and Development of Regions and Localities											
4. Education	12,731	13,364	6,198	16,018	72,091	7,412	7,292	2,641	5,383	3,854	146,984
5. Natural Resources	201	189	-	-	225	119	15	319	-	29	1,097
6. Agriculture, Trade, Industry and Tourism	615	239	350	176	2,214	2,271	2,225	6,893	3,973	1,364	20,110
7. Environment	-	-	-	-	-	1,520	-	-	-	-	1,520
8. Recreation and Culture	194	184	801	6,561	52,607	24,094	2,086	630	943	1,029	89,129
9. General Government	-	1	3	806	-	20	2,369	-	35	-	3,234
10. Protection of Property	84	103	123	79	828	2,197	272	167	350	608	4,811
11. Transportation and Communications	-	-	7	-	-	100	125	418	-	-	650
12. Labour and Employment and Immigration	-	46	10	6	127	130	20	105	108	-	552
13. Research Establishments	-	-	84	64	-	73	-	92	87	87	482
Subtotal	100,993	29,837	114,131	119,774	1,075,346	1,036,194	161,325	136,980	241,932	302,066	3,318,578
C. Contributions for the Benefit of Provincial Institutions											
1. Post-Secondary Education**											
Cash Transfer	5,443	916	22,486	7,317	196,070	153,637	17,699	13,820	54,670	13,083	485,141
Tax Transfer	6,267	1,191	12,772	8,888	133,991	248,849	20,073	13,632	41,954	64,929	552,546
Total Post-Secondary Education	11,710	2,107	35,258	16,205	330,061	402,486	37,772	27,452	96,624	78,012	1,037,687
2. Grants to Municipalities and Provinces in Lieu of Taxes on Federal Property											
Subtotal	418	156	5,145	702	14,447	27,379	4,255	1,722	3,523	5,001	62,748
Subtotal	12,128	2,263	40,403	16,907	344,508	429,865	42,027	29,174	100,147	83,013	1,100,435
D. Total (A + B + C)	281,623	68,151	345,790	283,736	2,120,354	1,508,838	334,516	350,703	478,759	395,426	6,167,896

*Denotes programs where "contracting-out" has occurred in whole or in part. For the purpose of comparison the federal contribution including the tax abatement has been shown.

**The contribution takes the form of (a) a federal personal income tax abatement of 4.357 points and a federal corporation income tax abatement of 1 point, (b) where applicable, the equalization arising from those tax points and (c) a cash transfer equivalent to the eligible contributions less the value of the tax points abated and the associated equalization.

DESCRIPTION OF PROVINCIAL INCOME TAX REVENUE GUARANTEE PAYMENTSProgram Description:

The revenue guarantee program was proposed at the time of the federal income tax reform which became effective in 1972 following a comprehensive review of the federal tax system by a Royal Commission. It was intended as a device to induce provinces to adopt income tax legislation conforming to the new federal tax legislation by insuring that they would receive no less in tax revenue under the new system, at specified "breakeven" rates of taxation, than under the old system, had it remained in place. The revenue guarantee program covers the combined yield of the personal and corporate income tax, including associated equalization, where applicable. The guarantee has been applied not only to tax changes introduced in 1972 but also to most of those introduced subsequently.

Time Frame:

This provision of the Act is effective for the five years from April 1, 1972 to March 31, 1977.

Financing and Operation:

A revenue guarantee payment is made when the sum of the yields of the personal and corporation income taxes of a province under the post-1971 tax system is less than the sum of what the yields would have been under the 1971 tax system. In the case of provinces entitled to equalization payments, the guarantee payment is the difference between the equalized yields.

Provincial revenues that would have been raised under the 1971 tax system are estimated, in the case of the personal income tax, on the basis of statistical equations relating the provincial personal income tax yields to economic variables. These equations are contained in the Regulations. In the case of the corporation income tax, the provincial revenues that would have been raised under the 1971 tax system are estimated on the basis of information extracted by Revenue Canada from the actual tax returns filed by corporations.

Provincial Entitlements:

As of July 1975, final provincial entitlements have been computed for 1972-73, the first year of the guarantee. Estimates have been computed on the basis of preliminary data and forecasts for the year 1973-74 and 1974-75.

The following table shows the provincial revenue guarantee entitlements under the first three years of the program.

Provincial Revenue Guarantee Entitlements

(\$ million)

	<u>Final</u>	<u>Preliminary</u>	
	1972-73	1973-74	1974-75
Nfld	1.9	5.7	8.8
P.E.I.	.4	1.2	2.1
N.S.	-*	8.8	14.0
N.B.	2.5	8.3	14.7
Que.	13.4	58.1	93.0
Ont.	50.3	127.1	140.5
Man.	6.5	16.4	24.0
Sask.	4.5	10.5	18.0
Alta.	5.7	23.8	42.5
B.C.	3.1	11.5	21.0
Total:	<u>88.3</u>	<u>271.4</u>	<u>378.6</u>

*Nova Scotia excluded itself from the guarantee program when it imposed, for the year 1972, a provincial tax rate higher than the specified converted rate, as prescribed by the Act. The Act was later amended to limit Nova Scotia's ineligibility to the first year of the guarantee only.

Payments:

In accordance with the Regulations, final revenue guarantee payments, for a fiscal year must be made within a twenty-one month period following the end of that fiscal year. The Regulations also provide for advance payments to be made before that time.

As of July 1975, final payments have been made for the year 1972-73 and payments on account amounting to 75% and 60% of the preliminary entitlements for 1973-74 and 1974-75 have also been made.

DESCRIPTION OF PROVINCIAL REVENUE STABILIZATION PROGRAM

The purpose of the revenue stabilization program is to provide each province with an unconditional guarantee against year to year loss of revenues as a result of a downturn in either the regional or the national economy. The measure runs for a period of five years ending in 1976-77. It is effected by providing a guarantee to each province in respect of revenue sources that tend to vary in accordance with the state of the regional or national economy, i.e., for:

- (a) those revenue sources which are subject to equalization which, for convenience, may be referred to as "the provinces' total revenues from own sources",
- (b) equalization itself, and
- (c) income tax revenue guarantee payments under Part IV of the Fiscal Arrangements Act.

More specifically, if a province's total revenues from these sources show a year to year decline, measured after adjustments have been made to eliminate the effects of any year to year changes in tax rates or structure, a stabilization grant is payable to bring the revenues up to the level of the preceding year. Section 15 of the Federal-Provincial Fiscal Arrangements Regulations, 1972 provides for the way in which adjustments would be made to the revenues of a province in order to eliminate the effects of any year to year changes in tax rates or structure.

The present revenue stabilization proposals replace previous arrangements which were introduced in 1967. The previous arrangements were applicable to substantially the same revenues but the level of guarantee was only 95 per cent. No payments have been made under either program and no applications have ever been received. Instances of revenue downturns are rare for any province in the post-war period. It is particularly unlikely that the seven provinces in receipt of equalization will qualify because equalization is itself a form of stabilization. Thus, if a province's economy turns downward, its share of the various tax bases used in calculating equalization will fall and its equalization entitlement will increase. However, in order for this to work out in this way it is necessary to bring equalization payments into stabilization on an "accrual" basis so that adjustments made after the end of the fiscal year are related to the same year as the revenues which are being equalized. This is provided for in the definition of "revenue subject to stabilization" contained in section 6(2) of the Act. It is also provided that Tax Collection Agreement payments and tax revenue guarantee payments will be placed on an accrual basis since adjustments after the end of a fiscal year can be of major importance in these cases. Further, in the case of Tax Collection Agreements, adjustments tend to be equal and in the opposite direction to those made in respect of that part of equalization which relates to income taxes.

Despite the foregoing considerations, provinces may qualify for stabilization payments. This is most likely to happen in the event of: (i) a sharp downturn in the economy of one of the provinces which does not qualify for equalization or (ii) a downturn in the national economy, in which case all ten provinces could conceivably qualify for payments.

It should be noted that stabilization payments themselves are not included in "revenue subject to stabilization". If they were, a province would in fact have a permanent guarantee (subject only to the terminal date of the stabilization program).

While the revenue stabilization program expires on March 31, 1977, its renewal - following a review of the program and consultations with the provinces - may be expected, as this program has become an integral part of the ongoing fiscal arrangements between Canada and the provinces, which are renewed every five years.

DESCRIPTION OF CONTRACTING OUT ARRANGEMENTS

Purpose:

These arrangements allowed any Province to assume the administrative and financial responsibility for certain joint programs. The offer was taken up by only one province, Quebec.

Authority:

Established Programs (Interim Arrangements) Act.
Federal-Provincial Fiscal Arrangements Act, 1972, Part VII.
Youth Allowances Act.
Federal-Provincial Fiscal Revision Act, 1964.

Established Programs (Interim Arrangements) Regulations.
Youth Allowances Regulations.

Supplemental Agreements with Quebec.

Time Frame:

The interim arrangements for contracting out of the Hospital Insurance and Diagnostic Services Program expire on December 31, 1977, and the arrangements for the Special Welfare Programs expire on March 31, 1977.

There is no specified termination date for the arrangements for the Youth Allowances Program.

Financing and Operation:

Canada, during the term of these arrangements, undertakes to compensate the contracting Province for its assumption of certain specified programs. The compensation is in two parts:

1. the abatement of the federal income tax on residents of the province; and
2. an operating cost adjustment payment.

The first part of the federal compensation consists of a specified abatement of the federal personal income tax for each program that the Province contracts out of. An abatement of 16 personal income tax points is granted for contracting out of the Hospital Insurance and Diagnostic Services Program. Five points are abated for the Special Welfare Program and 3 tax points are abated in respect of the Youth Allowances Program. The Special Welfare Program is a composite of four programs. Three of these programs are residual ones which are presently being phased out. These are: Blind Persons Allowances, Disabled Persons Allowances and Unemployment Assistance. The fourth program is the Canada Assistance Plan (CAP) which is a comprehensive program for sharing provincial and municipal welfare costs between Canada and the Provinces. CAP includes the functions which were previously carried on under the other three components of the Special Welfare Program.

The rest of the compensation to a Province which "contracts out" is in the form of an operating cost adjustment payment. This is in the amount of the difference between the value of the federal tax abatement and the financial burden assumed by the Province that "contracted out". Depending on the operating costs of the program and the value of the income tax abatement the adjustment payment is made either from Canada to the Province or vice versa. Generally, the total federal contribution to the Province amounts to about 50 per cent of the operating costs of the programs involved.

To receive compensation from the federal government under the opting out arrangements a Province must enter into supplemental agreements in respect of each program for which it assumes responsibility. Quebec is the only Province that has entered into such agreements.

Under the present arrangements Quebec submits to the Department of National Health and Welfare a monthly statement of expenditures for each of the five programs (Youth Allowances excepted) indicated above. From this information the Department of National Health and Welfare estimates the federal share of the annual program costs and so informs the Department of Finance. The latter Department, on the basis of this estimate of program costs and its own estimate of the value of the federal tax abatement, determines and pays (or receives) in monthly installements the appropriate operating cost adjustment payment.

From 1966 the 3 point tax abatement for the Youth Allowances Program has represented a larger value than the federal savings due to Quebec's opting out. The excess has been recovered from the province by charging it against the operating cost adjustment in respect of the other programs. With the enlargement of the Family Allowances Program to embrace those 16 and 17 years of age as of January 1, 1974, the Youth Allowances Program (and its Quebec equivalent) was discontinued. In the resulting arrangement, Quebec retained the 3 point tax abatement associated with the former Youth Allowances Program, and the full value of the abatement is recovered from other fiscal payments to Quebec.

Payments

The following table provides a comparison of the 1974-75 estimates and the actual 1973-74 expenditures, showing the value of the tax abatements and the size of the cash adjustment payments to Quebec according to program.

Program and Form
of Compensation

1973-74 Expenditures
(\$ million)

1974-75 Estimates
(\$ million)

Hospital Insurance

Federal Share of Cost	429.9	479.5
Tax Abatement Value	418.9	493.7
Federal Cash Payment	11.0	-14.2

Special Welfare

Federal Share of Cost	320.0	377.6
Tax Abatement Value	124.5	148.7
Federal Cash Payment	195.5	228.9

Subtotal

Federal Share of Cost	749.9	857.1
Tax Abatement Value	543.4	642.4
Federal Cash Payment	206.5	214.7

Youth Allowances

Federal Share of Cost	23.2	-
Tax Abatement Value	76.3	89.2
Federal Cash Payment	-53.1	-89.2

Prior Year Cash Abatement

-	57.0
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Total

Federal Share of Cost	773.1	914.1
Tax Abatement Value	619.7	731.6
Federal Cash Payment	153.4	182.5

DESCRIPTION OF PUBLIC UTILITIES INCOME TAX TRANSFER PROGRAM

Under the Public Utilities Income Tax Transfer Act the federal government turns over to the provinces 95% of the federal income tax paid by investor-owned public utilities on income which is attributable to the generation and/or distribution to the public of electrical energy, gas and steam. This is a continuing program, subject to change only by federal legislation. There is no termination date specified in the Act. Payments are unconditional.

Since 1972-73, payments are made on a current basis, with adjustments made when information as to the actual tax collections becomes available in a subsequent year. Payments by province for the past two years are as follows:

<u>Province</u>	<u>1973-74 Expenditures</u> (\$000)	<u>1974-75 Forecast</u> (\$000)
Newfoundland	1,922	1,744
Prince Edward Island	390	453
Nova Scotia	202	200
New Brunswick	5	-
Quebec	2,357	948
Ontario	12,537	7,628
Manitoba	451	1,410
Saskatchewan	16	9
Alberta	6,085	12,495
British Columbia	<u>1,930</u>	<u>1,768</u>
Total	<u>\$25,895</u>	<u>\$26,655</u>

DESCRIPTION OF DISASTER ASSISTANCE PROGRAM

Purpose:

To assist provinces financially where the cost dealing with a disaster exceeds a level which the provinces could be reasonably expected to bear on their own.

Authority:

There is no statutory authority of general application for the provision of disaster assistance. Requests from the provinces for financial assistance are considered by the Cabinet on an individual basis.

Time Frame:

It has been a long standing policy of the federal government to assist the provinces financially in the event of major disasters. No termination of this policy is contemplated.

Financing and Operations:

Prior to 1970, the cost sharing arrangements between the federal government and the provinces were negotiated with individual provinces on an ad hoc basis. Since 1970, the federal government policy on disaster assistance has taken the form of reimbursing the provincial governments on the basis of a per capita formula. The formula establishes the amount of assistance that will be available given various levels of provincial expenditures on disaster relief that are deemed eligible for cost sharing. The types of provincial expenditures that are considered eligible for cost sharing are defined in a set of administrative guidelines: Generally speaking, these are expenditures that are made to restore public works, the essential personal property of private citizens, and farmsteads, and small businesses to their pre-flood condition.

Under the cost-sharing formula, no cost sharing occurs unless provincial expenditures exceed an amount equal to \$1.00 per capita. Where a province's expenditures exceed this level, the amount of federal financial assistance payable to a province is determined as follows: 50% of next \$2.00 per capita of provincial expenditures eligible for cost sharing; 75% of the next \$2.00 per capita and 90% of the remainder. Payments to provinces, including advance payments, if requested, are authorized by the Cabinet against the Treasury Board Contingencies Item. A special item is subsequently included in the Estimates to reimburse the Contingencies Item. The nature of the program is such that it can not be provided for in the Main Estimate. While the Minister of Finance has overall responsibility for disaster assistance, the details of cost sharing arrangements are administered by the National Emergency Planning Establishment (NEPE), formerly the Canada Emergency Measures Organization.

NEPE has a regional director resident in the capital city of each province. When cost sharing is arranged with a province, the NEPE regional director is formally designated as the representative of the federal government for purposes of administering the arrangement. This involves the detailed interpretation of the guidelines, and a general surveillance of private damage claims and the development of joint federal-provincial teams to review claims for agricultural damage and public sector damage.

OVERVIEW OF FEDERAL ASSISTANCE TO LOCAL GOVERNMENTS

INTRODUCTION

Intergovernmental fiscal relations in Canada are characterized by a network of conditional and unconditional transfer programs among the three levels of government which are designed to ensure sufficient support for the expenditure responsibilities of all levels. In this connection, federal support to the local level is of both a direct and indirect nature. Direct support is mostly in two forms - grants in lieu of property taxes and conditional transfers to municipal governments for functions in which the federal government feels there is a national interest. Indirect support to the local level is reflected in the set of programs and fiscal arrangements between the federal government and the provinces which are designed to increase the capacity of the provinces to respond to their expenditure demands including those of their local governments. The indirect support is described elsewhere in this booklet. Following is a summary of the direct assistance.

SPECIAL PURPOSE ASSISTANCE

Grants in Lieu of Property Taxes

Under the Canadian constitution property holdings of the federal and provincial governments are exempt from taxation. The federal government has, however, paid grants to municipalities in lieu of property taxes since 1950.

Payments since 1951 have been governed by the Municipal Grants Act. Since 1957 the Act has provided for payments that are the general equivalent of full taxes.* The levies covered consist of real property and local improvement taxes. They do not include personal property taxes (which have virtually disappeared in Canada) or a unique Canadian substitute known as the business occupancy tax. The federal properties which qualify for grants encompass a very broad range which includes office buildings, post offices, research laboratories, armouries, military bases, airports, experimental farms, penitentiaries, hospitals, warehouses, port facilities. There are a number of exclusions; these include parklands, Indian reserves, cultural properties (such as museums and art galleries), structures (such as canal locks, docks, jetties and aircraft runways), and leased properties.

The property tax grants are paid annually.

More than 50 per cent of Canada's municipalities qualify for the payments. In the present fiscal year these payments will total more than \$75 million - including about \$3 million paid directly to provinces where the latter have taken over the property tax levying function. In addition, government-owned enterprises such as the Canadian National Railways,

* Each of the ten provinces now has its own program of grants in lieu of taxes as well, although in the case of one province this is limited primarily to properties of government-owned enterprises.

Air Canada, Central Mortgage and Housing Corporation, Canadian Broadcasting Corporation and National Harbours Board pay grants of their own. Also, payments are made in lieu of taxes on diplomatic and consular properties of foreign governments. Overall, the payments by the federal government and its agencies come to an amount that is well in excess of \$100 million. The program has been particularly supportive to municipalities with large concentrations of federal property. Thus the total payments to the City of Ottawa and its suburbs in 1975 is approximately \$26 million.

The real property tax grants are determined by applying the local tax rate or rates to the assessed value of federal property as approved by the federal government. While the legislation provides that the government has the final voice in determining property value in the event of dispute with the local assessor, it also provides that the value to be used as the base for the grant must be in line with the values used for privately owned property. In practice, the number of instances where differences arise over the valuation of property is relatively limited.

The Minister of Finance has recently announced that the Municipal Grants Act will be amended and some enlargements made to the scope of the program.

Other Direct Assistance

Local government spending can be grouped into the following nine functional categories:

1. General government
2. Protective
3. Transportation
4. Environmental Health (water supply, sewage and garbage collections and disposal)
5. Public Health and Welfare
6. Environmental Development (housing and community development)
7. Recreation and Cultural
8. Education
9. Fiscal (debt charges)

Special purpose assistance is provided for categories 2, 3, 4, 5, 6, 7, 8 and 9. Federal spending in these categories includes the following programs:

Protective

Royal Canadian Mounted Police.

The federal government operates a national police force, which enforces certain federal statutes. The services of the R.C.M.P. are also made available on a cost-recovery basis to the provinces and smaller municipalities. At the present time services are provided, through contract, to 174 municipalities. This enables these municipalities to share in various advantages arising from a national police force. The R.C.M.P. also provides certain types of service to all Canadian police forces through the operation of an information centre, crime detection laboratories and a police college.

Transportation

Ministry of Transport

- Capital Assistance for Urban Commuter Services

A 5 year program to help fund the initial or developmental costs of new commuter systems has just been announced. Federal contributions are up to 75 per cent of vehicle costs on a grants basis and 25 per cent on a loan basis for new systems. Up to 50 per cent of the cost of platforms, stations and related traffic control expenditure is also available. This program is of particular benefit to the largest metropolitan areas.

Discussions are underway as well on the possibility of providing some form of general assistance for the purchase of mass transit vehicles. This potentially would be of substantial benefit to all Canadian municipalities with transit systems.

- Financial Assistance to Community Airports

The extent of federal support depends on the type of community airport being constructed. Feeder airports can qualify for up to 100% of capital costs and may receive operating subsidies while small local and remote airports may receive up to 50% of airport building costs.

Canadian Transport Commission

- Railway Relocation and Rerouting Assistance
For municipalities wishing to relocate railway lines, up to 50% of plan preparation and 50% of the net project cost is available from the federal government.

- Railway Grade Crossing and Separation Fund
Up to 80% of project cost is available to municipalities who wish to improve the safety and convenience of railway crossings within their boundaries.

Department of Regional Economic Expansion

- Subsidiary Development Agreements
Loan and grant assistance is provided for the building of bridges and roads. For example, St. John's, Nfld. will receive funds to complete a harbour arterial road. This source of funds is particularly important to urban centres in slow-growth regions.

Ministry of State for Urban Affairs

- Support of Planning
MSUA provides financial and technical support to metropolitan municipalities in support of the development of metropolitan growth and development strategies.

Environmental Health

Central Mortgage and Housing Corporation

- Sewage Treatment Program
Grants and loans for the construction and expansion of

sewage treatment facilities including collector lines and plants. Loans are available for up to two-thirds of the cost of the project with provision for forgiveness of 25% of the loan.

- Housing Research and Development Program

New forms of sewage treatment pioneered by a municipality are eligible for a grant.

Department of Regional Economic Expansion

- Subsidiary Development Agreements

Municipal water treatment and supply facilities are eligible for federal funding under Subsidiary Development Agreements.

Public Health and Welfare

Health and Welfare Canada

- Canada Assistance Plan

Though the Canada Assistance Plan is a federal-provincial shared-cost program it provides indirect financial support to municipal governments. Municipalities submit their welfare bills to their respective provinces who reimburse municipalities generally to the extent of 80 to 90 per cent of their total costs. Provinces in turn submit their total eligible welfare costs to the federal government which pays 50 per cent.

Environmental Development

Central Mortgage and Housing Corporation

- CMHC has 6 different programs from which municipalities can draw loans and grants to:
 - i) provide low-rental and public housing for low-income families;
 - ii) reconstruct and rehabilitate blighted neighbourhoods including the provision of recreation facilities;
 - iii) assemble and develop land for residential purposes or establishing land banks for future development.

Federal funding assistance under these programs is generally a mix of loans and grants. Loans at a preferred rate of interest usually range up to 90 per cent of project costs with a forgiveness feature of up to 25%.

Recreation and Cultural Services

Central Mortgage and Housing Corporation

- Neighbourhood Improvement Program
- Funds are available to improve municipal recreation facilities in designated areas.

Education

Secretary of State

- Bilingualism in Education at Pre-University Levels
- In order to assist provinces and municipalities with the additional costs of providing facilities for the teaching of the second official language the federal

government will provide 5 per cent of the average annual teaching costs for second language instruction and 9 per cent of the average annual teaching cost for minority language education.

- The federal program of equalization includes school purpose taxes. Approximately 10 per cent of the payments under this program relate to these taxes. In 1975 the amount is estimated at \$187 million; the payments are made to the provinces.

Fiscal Services

Department of Health and Welfare

- Canada Pension Plan

Funds accumulated by the plan are channeled to the provinces to help meet their borrowing requirements.

Some provinces have channeled their shares directly to their municipal governments. Municipalities benefit by way of a reduced borrowing rate and by assured access to capital funds.

CONCLUSIONS

Some points which might be stressed here:

- Federal initiatives since 1962 in increasing the fiscal resources of the provinces have been reflected in increased provincial transfers to their municipalities.

- Federal provincial shared-cost programs in health, education and welfare have removed large and fast-growing expenditure needs from the municipal level. With the exception of the municipal share of elementary and high school education costs, (which is decreasing over time as provincial funds are substituted for property tax receipts) property tax revenues can in fact be devoted very largely to property related services.

- The Federal Ministry of State for Urban Affairs reflects the federal level's continuing and growing appreciation of the links that exist among the three levels of government. The most tangible result of MSUA has been the establishment of effective communication links among politicians and officials of all three levels of government. These links ensure a growing appreciation of one another's financial concerns.

A further tangible result is the establishment of a Tri-Level Task Force on Public Finance to undertake a review of public finance with particular reference to local government finance. This Task Force is expected to produce an interim report towards the end of 1975 and its interim findings will subsequently be considered by the three levels of government.

DESCRIPTION OF FEDERAL PROGRAMS
FOR REGIONAL ECONOMIC DEVELOPMENT

Regional Development

The Main Estimates for the Department of Regional Economic Expansion (DREE), including budgetary expenditures and loans, remain at \$513 million with a greater portion going into budgetary expenditures and a smaller portion into loans.

In the 1974-75 fiscal year, a new approach to regional development was taken in the establishment by DREE of individually-tailored federal-provincial action programs under the General Development Agreements signed with the provinces in 1974.

The programs being financed by DREE are in many cases outgrowths of provincial development strategies. Approximately 20 subsidiary agreements, having two to five-year implementation periods, have been signed and at least an equal number of new agreements are expected to be signed during 1975-76.

In addition to these new agreements, there are other important elements in the government's efforts to reduce regional disparities. DREE's traditional federal-provincial programs, such as those carried out under the authority of the Agricultural and Rural Development Act, the Fund for Rural Economic Development and Special Areas Programs, will require as much as \$120 million.

In addition, there are two traditional and completely federal programs: the Regional Development Incentives Program which provides grants and loan guarantees for the establishment or modernization of industry in designated geographical areas; and the Prairie Farm Rehabilitation Administration (PFRA) which is responsible for certain capital works in the rural areas and small towns of Western Canada. In 1975-76, it is expected that incentives to industry will be about \$92 million, while PFRA costs will amount to \$31 million.

Some of the department's infrastructure programs involve loans as well as grants and contributions. The \$42 million proposed for loans and investments in 1975-76 is related to previous commitments to Atlantic and Prairie municipal infrastructure projects and represents a reduction of \$31 million from the level approved through 1974-75 Main Estimates.

In order to obtain more efficient program planning and implementation, the Department of Regional Economic Expansion has decentralized its operations to the extent that almost 70 per cent of its more than 2,000 employees now work outside the National Capital Region in regional and provincial offices.

Another aspect of the government's approach to regional development programs is its recognition that a single department's actions will not by themselves produce satisfactory long-term results, and that greater co-ordination and redirection of related federal programs are required. The subsidiary agreements provide the most flexible instrument to bring many other departments and agencies into specific action programs. Thus, departments like Transport, Energy, Mines and Resources, and Environment are participating in special regional development agreements that deal with matters within their spheres of responsibility.

The budgetary requirements of the Cape Breton Development Corporation's Coal Division are forecast to be \$28 million in 1975-76, representing a reduction of \$20 million from 1974-75 Main Estimates. With modernization financed by the federal government as well as the improved coal economics resulting from increased world fuel prices, the corporation has been able to change its emphasis from the maintenance of employment for social reasons to the expansion of production on a more commercial basis.

This expansion program includes the development of a new mine, which will be financed through a \$7-million loan included in the Main Estimates. Other capital improvements include expansion of the coal preparation plant, upgrading of railway equipment and lines and improvements to ensure increased safety throughout its operations. The total cost of these other capital improvements is forecast at \$23 million, of which more than \$5 million will be available from an operating surplus on its coal operations.

DREE EXPENDITURES BY PROVINCE

(\$000's)

<u>FISCAL YEAR</u>	<u>P.E.I.</u>	<u>NFLD.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>ONT.</u>	<u>QUE.</u>	<u>SASK.</u>	<u>MAN.</u>	<u>ALB.</u>	<u>B.C.</u>
1969/70	10,613	34,749	36,327	29,965	19,759	25,502	14,834	16,131	16,173	4,775
1970/71	14,619	62,482	32,818	64,437	12,412	78,574	17,010	16,339	13,086	5,797
1971/72	17,710	35,405	42,898	45,400	16,937	113,863	18,126	17,854	9,018	10,843
1972/73	19,439	37,343	51,539	44,290	19,036	113,873	13,601	24,086	16,863	4,536
1973/74	19,427	50,680	34,752	57,624	12,537	165,664	16,397	14,461	25,143	4,028
1974/75	23,659	59,701	39,257	63,515	18,682	121,796	37,809	29,659	19,204	7,626
Per Capita (1971 Census)	\$943	\$537	\$302	\$481	\$13	\$103	\$127	\$120	\$61	\$17

FEDERAL-PROVINCIAL CONSULTATIONS

Finance-Treasury Board

Ministers of Finance and Provincial Treasurers have met once or twice each year since 1964 and occasionally previous to that time. The frequency and timing of meetings has been irregular. However, the most continuing element of this intergovernmental relationship has been what has become the annual pre-budget meetings which have taken place in the months of December or January preceding the February to June period when federal and provincial budgets are brought down. These have taken place each year for the past eleven years.

The pre-budget meetings provide Ministers with an exchange of economic and financial information at an important time of year. The information exchanged relates to such matters as the general economic outlook, the outlook for each of the major sectors of the economy, matters relating to public revenues and expenditures, borrowing intentions, etc. It is hoped that this exchange of information will result in "fiscal harmonization" of the public sector of Canada so that governments are not working at cross purposes. For example, given common economic objectives, it is normally desirable for all governments to follow broadly similar fiscal policies, rather than have some governments adopt broad policy stands in conflict with those of other governments. At certain times it is also desirable to have governments follow either common or complementary practices

with respect to borrowing broad in view of the effect of such borrowings on the value of the Canadian dollar in the foreign exchange market.

A second major purpose of the Finance Ministers' meetings is to provide a forum for intergovernmental consultations during a period of approximately two years preceding the start of each of the quinquennial federal-provincial fiscal arrangements.

A third purpose of the meetings is to discuss various items of common interest which are important enough to warrant ministerial attention. The principal example of this to date has been a number of meetings prior to the introduction of federal income tax reform. These meetings focussed on the Carter Report and the federal White Paper on Tax Reform. Another example has been discussion of proposals for changes in the arrangements whereby the federal government contributes towards the financing of joint programs in the field of health - a matter also discussed by federal and provincial ministers of health at meetings which parallel those of Ministers of Finance.

Governments may try to reach agreements on various matters at such meetings. Often, however, a basic purpose is simply to influence decisions that must be taken by another government.

There are also federal-provincial finance meetings at the level of officials. The deputy ministers of Finance of Canada and the ten provinces have met, as the Continuing Committee on Fiscal and Economic Matters, for a period of some 20 years. This body usually meets in advance of ministerial meetings, but also at other times as well. It deals with the same subjects as ministers. Matters of technical detail are dealt with by this Committee or, occasionally, by means of special sub-committees.

Other Federal-Provincial Meetings

The First Ministers of Canada and the Provinces (Prime Ministers or Premiers) meet from time to time and their agendas may include financial matters. In addition, there are federal-provincial meetings relating to numerous specialized functions, including health, welfare, agriculture, labour, environment, housing, statistics, etc.

TAX COLLECTION AGREEMENTS

Program Description

Provincial Income Tax Collection

Canada has entered into agreements to collect for nine provinces (Quebec excepted) their personal income taxes and to collect for eight provinces (Quebec and Ontario excepted) their corporation income taxes. The tax collection agreements were first effective for the 1962 calendar year and will remain effective until formal notice of termination is given by either party. Canada or a province may terminate the agreement on December 31 of any year provided due notice is given. Canada must give a full calendar year's notice of termination and a province must give three months' notice.

In its endeavour to promote a uniform income tax structure in Canada, the Federal Government required that the provinces party to a tax collection agreement must express their personal income tax rate as a percentage of the federal tax assessed on individuals and their corporate income tax rate as a percentage of the taxable income of corporations as determined under the federal income tax law. By this proviso the Federal Government ensured that the same income of personal income taxpayers was subject to tax by both the federal and provincial governments and that the same personal exemptions and the same tax progressivity were adhered to by both levels of government. The proviso as it applied to corporations ensured that the same income of corporations was subject to tax and the same depreciation and depletion provisions applied.

Under the terms of the agreements a province had to impose for each calendar year a single individual income tax rate and a single corporation income tax rate. The tax rate applied to the taxation years of individuals and of corporations ending in the calendar year. The taxation year for individuals coincides with the calendar year. The taxation years of corporations vary and corporations are required to pay the provincial corporation income tax rate applicable to the calendar year in which the fiscal year of the corporation ends. A province is required to inform National Revenue no later than April 15 the provincial individual income tax rate applicable for the year and no later than April 1 the provincial corporation income tax rate applicable for the year. However if a province wishes its new personal income tax rate to be applied to the January payroll deductions, the province must give National Revenue notice by the preceding October 15 of the new personal income tax rate. If such notice is not given, the new provincial tax rate will first be effective with the July payroll deductions. If a new personal income tax rate is effective for January payroll deductions, the tax collection instalment payments to the province for the year will reflect the higher provincial tax rate from their commencement. If the new personal income tax rate is not effective until the July payroll deductions, the July tax collection instalment payments will be the first to reflect the new provincial rate. As a province may not be able to enact the provincial tax rate applicable for a calendar year before the payroll deductions for that year commence, a province is required to announce publicly its new tax rate the month preceding the commencement of payroll deductions at the new rate.

The Federal Government is obligated under the tax collection agreements to estimate at the tax rate effective for each province each province's income tax and to make monthly payments to the province over a twelve-month period commencing with March of the year in question. The payments are subject to adjustment one year later when data as to the actual tax assessed for the year becomes available. National Revenue administers and assesses the provincial tax, while the initial payments to the provinces and their subsequent adjustments are made by the Department of Finance.

The collection service is provided free of charge. The final adjustments for a year are based on the provincial tax assessed. The payment on an assessment basis means the Federal Government has to bear the burden of any failure on the part of the taxpayer to pay the tax assessed. In return for the free collection service and federal assumption of any bad debts, the Federal Government retains all penalties and interest imposed on taxpayers. The free tax collection service is a prime factor in retaining provinces within the joint tax collection system.

Under pressure from the provinces for greater flexibility in the tax collection agreements, the Minister of Finance at the annual meeting of Federal-Provincial Ministers of Finance, December 10, 1974, enunciated a new policy. The Minister stated:

"that where it is possible to permit provincial income tax systems to depart from strict conformity with the criteria we have previously insisted upon without distorting and damaging the overall national system, I would be prepared to do so. This does not mean that I no longer consider the essential harmony of the federal and provincial tax systems as necessary. I certainly do. It simply means that we can now begin to consider relaxing the earlier conditions we insisted on in the tax collection agreements provided in doing so, we do not jeopardize the main features of our tax system or overstrain the tolerance of taxpayers or the capacity of the tax collecting apparatus".

Several provinces have taken advantage of this offer. Ontario, Saskatchewan and Alberta have enacted provisions in their income tax acts which give relief from provincial tax to those taxpayers who have been relieved of federal tax by 8% federal tax deduction (minimum \$200, maximum \$750). British Columbia has on its part imposed as of 1975 two corporate tax rates, a 10% rate applicable to small businesses and a 13% rate applicable to other corporations.